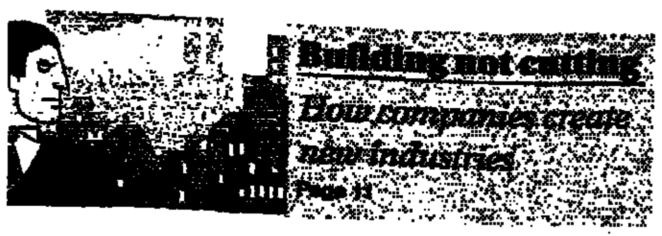

TOMORROW'S
Weekend FT
The last picture show

FINANCIAL TIMES

Europe's Business Newspaper
FRIDAY SEPTEMBER 2 1994
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Toyota signals plan to build vehicles in China

Toyota yesterday announced it would set up a support centre in China for component suppliers – the strongest hint yet that Japan's biggest carmaker is interested in making vehicles in China. Toyota president Tatsuro Toyoda will discuss the plan for the centre with government officials and local vehicle makers during his current visit to China. Page 16

Bid speculation over NBC television network continued in New York. A top NBC executive stopped short of denying reports that General Electric, NBC's parent, was considering a sale to Time Warner. Page 19

US-Cuba talks 'serious': The US and Cuba held "serious, professional and businesslike" talks about how to halt the uncontrolled exodus of Cuban boat people, the US state department said. Page 3

Israel widens links: Israel and Morocco announced they would establish diplomatic links by opening liaison offices in each other's countries. Morocco also announced it would open a liaison bureau in the Palestinian self-rule enclave of Gaza. Page 4

Gadaffi's salute marks 25 years in power

Libyan leader Muammar Gadaffi (left) waved to the Tripoli crowds as tanks rolled passed to mark 25 year since he overthrew King Mohammed Idris in a coup and seized power. The show of military might comes at a time when Libya is subject to UN sanctions imposed for its refusal to hand over two men suspected of involvement in the 1988 bombing of an airliner over Lockerbie, Scotland.

Russia lays down advertising law: Russia's government approved a draft law designed to curb saturation TV advertising like that used by failed financial company MMM, which swamped Russian screens with up to five commercials an hour. Page 2

Scott report delayed: Lord Justice Richard Scott's final report into Britain's "arms-for-Iraq" inquiry will not be issued until next year and the judge is to question more witnesses from the intelligence services, his office said.

Two die in UK fighter crash: The two crew of a Royal Air Force Tornado fighter died when their aircraft crashed near Inveraray in central Scotland. Their bodies were found in wreckage.

Broker takes new name: Hoare Govett, the London stockbroking firm acquired two years ago by Dutch bank ABN-Amro, is to take the name ABN-Amro Hoare Govett. Page 17

BASF, German chemicals group, is trying to boost its Knoll pharmaceuticals division by diversifying into non-patented generic drugs in the German market via a new distribution and marketing company, BASF Generics. Page 17

Elf interims down: French oil group Elf Aquitaine blamed lower crude prices for a 10 per cent drop to FFr1.2bn ($222m) in its first-half net profits. Page 17; Evolutionary, not revolutionary, approach at Elf, Page 20

Asbestos claims hit T&N: The former Turner & Newall – once Britain's biggest asbestos supplier – had to make record compensation personal injury payments of £22.1m ($34.25m) in the first half. But pre-tax profits at the engineering and motor components group rose from £39.4m to £61m. Page 23

Reckitt & Colman shares fell 25p to 627p when the household products and toiletries group reported interim taxable profits weaker than expected at £123.3m ($191m) Page 17; Lex, Page 16

Deportee's death probed: An investigation was launched in Germany into the death of a Nigerian who died at Frankfurt airport. The man had been tied up and sedated by German officials who were trying to deport him.

Quake rocks California: At least one strong earthquake rocked an area centred off the north coast of California. The quake, measuring 6.9 on the Richter scale, caused no damage but was felt as far south as Fresno in central California.

British team not withdrawn: The British Athletic Federation said it would not withdraw its women's team from next week's world cup because such a move would prejudge runner Diane Modahl's hearing after her positive drugs test. The International Amateur Athletic Federation could overturn the BAF decision.

■ STOCK MARKET INDICES

FT-SE 100:	3,216.5	(-34.8)
Yield	3.9	
FT-SE Eurotrack 100	1,396.82	(-8.7)
FT-SE-A All-Share	1,612.27	(-0.9%)
Nikkei	20,642.93	(+14.4)
New York lunchtime		
Dow Jones Ind Ave	3,902.74	(-10.65)
S&P Composite	473.0	(-2.5)

■ US LUNCHTIME RATES

Federal Funds:	4¾%
3-mo Treas Bills: Yld	4.646%
Long Bond	100⅝
Yield	7.467%

■ LONDON MONEY

3-mo Interbank	5 17/32%	(5 15/32%)
Liffe long gilt future:	Dec 101 11/32	(Dec101 13/32)

■ NORTH SEA OIL (Argus)

Brent 15-day (Oct)	$16.44	(16.495)

■ GOLD

New York Comex (Dec)	$391.3	(390.8)
London	$386.9	(386.25)

■ STERLING

New York lunchtime:		
$	1.5445	
London:		
$	1.5403	(1.5365)
DM	2.429	(2.4251)
FFr	8.313	(8.2998)
SFr	2.0395	(2.0436)
Y	153.514	(153.919)
£ Index	79.1	(same)

■ DOLLAR

New York lunchtime:		
DM	1.57445	
FFr	5.3875	
SFr	1.3225	
Y	99.65	
London:		
DM	1.577	(1.5783)
FFr	5.397	(5.4018)
SFr	1.3241	(1.33)
Y	99.665	(100.175)
$ Index	63.2	(63.3)

Tokyo close Y 100.01

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft 185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira70	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.50	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso60	Syria	S£60.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)	Es225	Turkey	L30000
Germany	DM3.80	Lux	LFr65			UAE	Dh12.00

Brussels may delay EU media ownership rules

By Lionel Barber in Brussels

The European Commission is considering delaying proposals to harmonise rules on media ownership in the EU, amid concern about a backlash among member states worried about intrusive Brussels regulation.

A decision to delay would be a setback for Mr Vanni d'Archirafi, the Italian internal market commissioner, who would like to introduce a new EU directive at the end of this year or early 1995. But majority sentiment among his Commission colleagues seems in favour of a "softly softly" approach.

Under a compromise solution that emerged in late July at a meeting of chiefs of staff of the 17 commissioners, the Commission will be asked this month to consider supporting an "initiative" on media ownership.

"We think we need to do something, but we don't want to prejudge the question of legislation," said one official. "This is a very important, very touchy subject."

Mr d'Archirafi argues that investment in Europe's single market is being held back by the patchwork of media ownership rules. He believes that an "initiative" – however it is dressed up – must lead to an EU directive if it is to be effective.

The Italian commissioner has also argued, with some success, that the EU must position itself quickly to exploit advances in broadcasting technology which are paving the way for pay television, video on demand, and the proliferation of specialised TV channels. Germany's Martin Bangemann, the industry commissioner supports this view.

But Sir Leon Brittan, chief EU trade negotiator, has raised questions about the need for EU-wide legislation, fearing it could infringe the principle of subsidiarity – devolving decision-making to the lowest appropriate national or regional level.

Mr Karel Van Miert, the Belgian competition policy commissioner, is worried that an EU directive lifting restrictions on media ownership could threaten the independence of Belgian media – a delicate balance between Flemish and Franco-phone interests traditionally wary of French predators across the border.

The problems created by differences in EU media ownership surfaced during a consultation exercise which the Commission conducted last year among 70 companies and industry organisations.

Many came out in favour of Brussels-led reform, with some expressing concern that outdated rules on cross-media ownership could deny them the opportunity to exploit future electronic media.

For example, in the Netherlands, newspaper publishers with a market share of more than 25 per cent cannot own a television channel, but in Italy the threshold is 16 per cent. In the UK, a blanket ban exists on newspapers owning more than 20 per cent of terrestrial channels, but there is no limit on ownership of satellite channels.

Brussels officials said yesterday the Commission faces a tricky balancing act as it ponders how to proceed. On the one hand, it needs to maximise the potential of the single market, but on the

Continued on Page 16

Goodbye to Berlin: General Matvei Burlakov carries away a Russian flag yesterday as he is about to leave the military airport at Sperenburg, 160 miles south of the city. Gen Burlakov was the commander of the western group of the Russian army based in former East Germany. Yesterday was the day on which the last Russian troops left Germany

Picture: Associated Press

Debate over IRA intentions continues

UK edges closer to face-to-face talks with Sinn Féin

By David Owen in London, Tim Coone in Dublin and George Graham in Washington

The prospect of face-to-face meetings by the end of the year between Sinn Féin and the British government moved closer yesterday, as Northern Ireland passed the first day of the IRA ceasefire with a mixture of wariness and jubilation.

As the debate continued over whether the IRA had declared a permanent end to its armed campaign, Downing Street acknowledged that amplifications during the day by republican leaders showed they were "moving in our direction".

But it emphasised that the three-month countdown to talks with the IRA's political wing would not begin until the organisation's intentions were "utterly clear".

Suspicions of a secret deal between London and the IRA were again aroused by the transfer of four Republican prisoners from the mainland to jails in Ulster.

Downing Street said that the transfer – involving two of the men sentenced for involvement in the Brighton bombing in 1984 – had "absolutely no connection" with the peace process and was a routine operation arranged more than a month ago.

But the move was at once attacked by Lord Tebbit, the former Conservative cabinet minister, who was badly injured in the blast. He said it was either "an early reward for the IRA or crass political incompetence".

Mr John Major, the prime minister, was said to be "livid" that transfer was authorised by Prison Service officials without reference to ministers.

In Dublin, Mr Albert Reynolds, the Irish prime minister, who does not share Downing Street's caution, used a state-of-the-nation speech to urge all parties to show imagination and flexibility, saying nobody should diminish the potential of the ceasefire "by trying to interpret it as anything other than what it is".

Mr Dick Spring, the Irish foreign minister, who plans to meet President Bill Clinton in Massachusetts today, said he hoped any differences of interpretation between London and Dublin would be resolved "in a matter of days."

In Washington, little tangible progress was evident in putting flesh on the US promise of support to the peace process.

In the past President Bill Clinton has expressed interest in a visit to Ireland. But no plans are presently being made.

As republican leaders responded to London's demands for the IRA to declare openly a permanent end to its armed campaign, Mr Martin McGuinness, a member of Sinn Féin's governing executive, said the organisation was committed to "a complete cessation of military operations under all circumstances".

But he said misgivings about the IRA's omission of the word "permanent" were "rather silly" and amounted to "a bit of a storm in a teacup". He expressed confidence that the matter would be resolved "within days".

"As far as I am concerned, Sinn Féin will be involved in discussions with the Dublin government and the British government in a short period of time."

His comments followed the publication of an article by Mr Gerry Adams in the Irish Times in which Mr Adams said: "Albert Reynolds, Dick Spring, John Hume and others have responded positively and correctly to the IRA announcement."

Business hopes for 30,000 jobs, Page 9

US and N Korea to meet in Pyongyang

By John Burton in Seoul

US and North Korean officials will meet in Pyongyang next week to discuss the opening of liaison offices in the two countries. Such a move would be a significant step towards establishing diplomatic relations.

Simultaneously, the two sides will meet in Berlin to discuss a US offer of light-water reactors, the supply of interim energy sources to North Korea while these reactors are being constructed, and the disposal of North Korea's spent fuel rods, which are capable of producing enough plutonium for five nuclear bombs.

The meetings, which will begin on September 10, are the result of last month's US-North Korean framework agreement. Under the accord, Pyongyang promised to accept full international nuclear inspections in return for improved ties with Washington and the supply of safe reactors to replace its dangerous graphite ones.

The talks confirm North Korea's willingness to abide by the agreement, while they also offer evidence that the succession of power in Pyongyang by Mr Kim Jong-il is proceeding smoothly after the death of his father, President Kim Il-sung, in July.

Officials in Seoul said it was unlikely that the US negotiators would have been allowed to go to Pyongyang if a serious power struggle was under way in North Korea, as has been rumoured in recent days.

Continued on Page 16

Rowland survives battle over Lonrho joint chief post

By Roland Rudd and Robert Peston in London

Mr Tiny Rowland won a last-minute victory yesterday over Mr Dieter Bock, his fellow chief executive, who had planned to strip him of his executive duties.

The German financier, with 18.8 per cent of the shares, had been confident that the group's 14 directors would remove the 76-year-old Mr Rowland as joint chief executive after the disclosure that he was costing Lonrho £5.5m a year in salary, expenses and other charges under his control.

But Lonrho's three non-executive directors were instrumental yesterday in preventing attempts to remove Mr Rowland as joint chief executive. One explained that they feared such an attempt could turn into a "damaging confrontation".

Instead of questioning whether Mr Rowland should continue in his post, the board issued a statement saying that speculation regarding his role in the company "was totally unfounded".

However, it also made clear that the remuneration committee, set up by Mr Bock and chaired by Mr Peter Harper, would review expense levels at head office. The statement also said the review of all directors' contracts, remuneration and expenses was part of an "ongoing process of change within the group".

Mr Rowland knew he had won an important victory before the start of the meeting when he told waiting journalists: "I am too young to retire."

Mr Bock's supporters were putting a brave face on events, making clear that the public disclosure of Mr Rowland's expenses had made it harder for him to remain in his post in the medium term.

Some directors also remain concerned that the company sold a recently completed film about the Lockerbie bombing to an Egyptian company linked to Libya, in possible contravention of United Nations sanctions.

But one Lonrho employee questioned Mr Bock's timing in trying to remove his joint chief executive.

Mr Rowland's two most prominent allies on the board retire in the autumn: Mr René Leclezio, the chairman, goes at the end of October and Mr Robert Dunlop retires at the end of the month.

Mr Bock might have been in a stronger position had he waited. But he is said to believe that his timing was dictated by the Lockerbie film disclosure.

With the disagreement between the two chief executives out in the open, some analysts warned that a question mark over the group's strategy would remain until it became clear who had won the power battle.

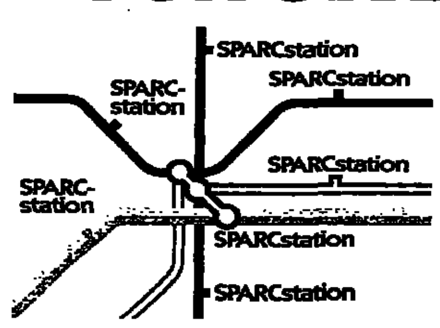
Mr Bock may now have to wait until the end of next year, when he can exercise a call option on Mr Rowland's remaining 6.5 per cent stake.

He has made no secret of his desire to remove Mr Rowland, who he believes has been frustrating his attempts to reorganise Lonrho's assets.

Editorial Comment, Page 15
A 'civilised option', Page 18

MORSE

The City Network.



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CONTENTS

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LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Militant Serbs want arms ban lifted

By Laura Silber in Belgrade and Bruce Clark in London

US threats to lift the arms embargo against Bosnia's Moslem-led government have produced an unexpected reaction: the most militant Serbs say they would welcome the move, while some prominent Moslems view the prospect with alarm.

This paradoxical response reflects the hardline Serbs' confidence that they could make further gains in the event of an all-out war, and Moslem fears that their side, albeit growing in strength, is not ready for an escalating conflict.

President Bill Clinton has told Congress, where the ban on arms sales to Bosnia is unpopular, that he will formally propose lifting the embargo unless the Bosnian Serbs accept the current peace plan by October 15.

Militant Bosnian Serbs, who have resisted pressure from their kinsmen in Belgrade to accept the plan, are confident the US move would force all Serbs to bury their internal divisions and prosecute the war with renewed intensity.

President Alija Izetbegovic, Bosnia's Moslem leader, acknowledged this week that his side had not yet matched its enemies' firepower.

His remarks reflect growing concern in Sarajevo that, if the embargo is lifted, Bosnian Serb forces would quickly move to crush the government army before it could get heavy weapons and learn to use them effectively.

The fighting ability of the Bosnian army has improved since the creation of a Moslem-Croat federation six months ago, but troops are still organised on a local basis and are ill-prepared to fight beyond their village or town.

UN officers say that if the embargo is lifted, it could take at least a year for the Bosnian army to make proper use of what equipment it received. Mr Radovan Karadzic, the Bosnian Serb leader, claimed last week his adversaries lacked professional officers capable of handling heavy weapons.

General Ratko Mladic, Bosnian Serb commander, has shown little concern about the arms embargo. "Let them lift it," he had told the independent daily Borba. Another Bosnian Serb officer said: "If they lift the embargo, the UN would leave and we could fight a real war. We would finish them off quickly."

One of the first casualties, in the event of an all-out war and withdrawal by the UN ground forces, could be the UN-designated "safe areas" for Moslems in eastern Bosnia.

But some prominent figures on the Bosnian Moslem side unequivocally favour a lifting of the arms embargo. They include Mr Haris Silajdzic, prime minister of the Moslem-Croat federation.

Italy, Britain and Spain would be excluded from centre of Community

CDU proposes an EU top five

By Quentin Peel in London and Michael Lindemann in Bonn

Italy, a founder member state of the European Union, as well as Britain and Spain, would be excluded from the five-nation "hard core" of a future flexible community, according to a top policy document published yesterday by Germany's Christian Democrats (CDU), the leaders of the country's coalition government.

Their vision of an EU of "variable geometry" would be centred on only five of the original founding members – France and Germany, as well as Belgium, Luxembourg and the Netherlands.

However, the reformers say their plan "does not imply abandoning hopes that Great Britain will assume its role 'in the heart of Europe'," as Mr John Major, the British prime minister, said in Bonn three years ago. Rather, they hope that by forcing the pace of European integration, Britain will in turn be forced to "clarify its relationship" with the rest of the EU.

The five-nation future core would be expected to co-ordinate ever more closely not only on monetary policy, in keeping with the plans for economic and monetary union, but also on fiscal, budgetary, economic and social policy.

The future structure of an expanding EU, to include not only the Scandinavian countries, but also the emerging democracies of central Europe, was spelt out yesterday by Mr Wolfgang Schäuble, the parliamentary leader of the Christian Democrats, and the second most powerful man in Germany's ruling party after Chancellor Helmut Kohl.

For the first time, they have openly stated their view that Italy can no longer qualify to be a member of the inner core if the EU inevitably moves to multiple speeds, or variable geometry. The expressions mean that different groups of the member states will co-ordinate their policies in different ways, depending on the subject concerned: some will opt for monetary union, others for a common foreign and security policy, and yet a third combination for a common social policy, for example.

"For the formation of European policy this is a period of many crises but also of many chances," Mr Schäuble said. "Variable geometry ... gives us better chances to complete this process, given the different, sometimes competing views. We must accept that not every member can accept every step at the same time."

Along with the CDU's sister party, the Bavaria-based Christian Social Union (CSU), Mr Schäuble presented a comprehensive five-point programme for the next phase of radical reform of the EU, intended to reconcile the conflicting demands of ever closer integration with continuing enlargement towards eastern Europe.

This includes the overhaul of all the main EU institutions, granting still more democratic control to the European parliament, while limiting the authority of the Council of Ministers, in which the governments of the member states are represented. Apart from the reinforcement of the "hard core", it also involves ever closer co-ordination between France and Germany, "raising the quality of relations to a new level".

"Germany and France form the core of the hard core," the document, called Reflections on European Policy, says. "Their special relationship faces a stiff test because it too is beginning to show signs of differentiation of interests and perceptions, which might cause them to drift apart."

It suggests that the two must overcome their differences of opinion on "fundamental issues of economic policy", including industrial policy and competition, as well as, by implication, trade protectionism. There must also be a debate on the long-term objectives of the common agricultural policy, and on basic features of the future financial system. The other key points in the plan are the reinforcement of the EU's common foreign and security policy, and its enlargement to the east.

On foreign and security policy, it stresses the priority needs for a common policy on stabilising central and eastern Europe, development of relations with Russia, and a common policy towards the Mediterranean region, including north Africa. It also singles out development of "a strategic partnership" with Turkey.

The European Union should produce a white paper on defence to define "precisely" its security interests and how to defend them in conjunction with Nato, the French prime minister, Mr Edouard Balladur, proposed yesterday, writes David Buchan in Paris. Expanding on the vision of a multi-speed Europe that he unveiled earlier this week, the prime minister made clear at a meeting with French ambassadors that such a defence white paper should be prepared by EU governments in contrast to the economic white paper drafted last year by Mr Jacques Delors' European Commission.

Mr Balladur's proposal seems to stem from disappointment that the defence white paper which his government produced earlier this year, and which committed France to maintaining military spending in the 1995-2000 period, has not evoked any matching commitments or ambitions from France's EU partners.

At the same meeting, Mr Alain Juppé, the foreign minister, called yesterday for big changes in EU institutions at the planned 1996 revision of the Maastricht treaty. "For France", he said. "it is a question of a significant reform, not a simple re-plastering job." The government's foreign policy pronouncements are designed to signal France's ambitions for its EU presidency in the first half of next year. However, they drew a sharp reaction from President François Mitterrand who tartly reminded the prime minister that the French constitution gives the president the first word in foreign and defence policy.

Late payments raise unrest fear

Moscow warns on wages crisis

By John Thornhill in Moscow

Mr Oleg Soskovets, Russia's first deputy prime minister, has warned that the country's escalating late payments crisis could spark social unrest with severe political repercussions.

According to Russian press reports, Mr Soskovets told a meeting of economic ministers, bankers and industrialists on Wednesday that the failure of many energy companies to pay their workers for months could prompt mass action by coal miners and oil and gas workers. An Economics Ministry report estimated that late payments of wages in industry and agriculture had risen from Rbs800bn at the beginning of the year to Rbs4,000bn by August 1, with the energy sector being badly hit.

The Russian government is grappling with ways of resolving the internal debts crisis but appears torn between whether to stick to a strict monetary path or try indirectly to inflate its way out of its difficulties by issuing fresh credits. Many Russian companies claim that the accumulation of inter-enterprise debt – now estimated at $45bn (£29bn) – has created a cash flow crisis making it impossible for them to pay their workers. They are demanding cash injections from the government to ease the liquidity problem.

The government commission for dealing with late payments, chaired by Mr Soskovets, has proposed an alternative package of measures including:

■ Forcing companies to settle their rouble debts out of their hard currency accounts. Many companies have hidden away funds in foreign bank accounts to avoid paying taxes and to hedge against inflation.

■ Insisting that enterprises could not pay dividends until their outstanding debts have been settled – a proposal which has prompted outrage among industrial managers.

■ Greater investigating powers to assess the true financial state of troubled companies.

■ Encouraging the use of promissory notes as a non-inflationary means of settling debts.

Mr Anatoli Chubais, privatisation minister, has also suggested formal bankruptcy procedures could be used more aggressively to concentrate the minds of the managers of 300 companies which account for the bulk of the inter-enterprise debt. Mr Chubais cited the example of the Kristal enterprise, manufacturer of Stolichnaya vodka, which had suddenly "found" Rbs500m to repay a debt when it was threatened with bankruptcy.

Russia clamps down on TV advertising

By John Lloyd in Moscow

The Russian government yesterday approved a draft law on advertising designed to stop the blanket advertising which propelled the now-collapsed MMM financial company into most Russian homes through TV advertising, gaining it millions of shareholders who now face losses or even ruin.

The draft comes as advertising executives say that Russia's TV advertising market is becoming rapidly more sophisticated and profitable, and is steadily acquiring the range of products which provide the staple of western TV ads.

The draft, still to be passed by the state duma (lower house of the parliament), bans all advertising from unlicensed companies – as MMM was – and prohibits any company from advertising more than twice in one hour on TV or radio. MMM swamped TV programmes with as many as five commercials in an hour.

The draft legislation also lays down that all advertisements be "trustworthy and conscientious"; bans subliminal advertising and all advertising for alcohol and cigarettes; and calls for the need to protect the young. It also decrees that commercials "do not discredit works of art representing national or universal values". This is to prevent the satirical or comic use of art works and historical figures.

Mr Victor Chernomyrdin, the Russian prime minister, called the measure "timely" and said he had opposed more radical suggestions to cut down by decree the volume of advertising in newspapers and in the broadcast media. MMM was far and away the largest advertiser on TV, spending on some estimates up to $100m (£64.5m) annually on pushing its shares through commercials using the Golubkov family of working class Muscovites.

> The draft lays down that advertisements be 'trustworthy and conscientious'; bans subliminal ads; and those discrediting works of art which represent 'national or universal values'

Mr Bruce MacDonald, head of the BBDO agency in Moscow, said yesterday that "no other advertiser came close".

However, a number of western consumer goods companies are now spending heavily on TV commercials as they seek to buy their places onto the increasingly choosy Russian market. Mars, the confectionery company which has established a manufacturing plant in Russia, is thought to be spending around $20m on an annualised basis – while western cigarette and cosmetics companies are spending between $2m and $8m each a year on their products.

The largest Russian advertisers are financial services companies and banks. Many of these are either establishing their names through rather grandiose displays linking their enterprises to Russian historical figures or events, or pushing shares.

Alcohol and tobacco advertising on TV accounts for some 5-8 per cent of the total, according to Mr MacDonald. Foreign brands of alcohol have proved particularly popular on the Russian market, with even the vodka sector now showing a one-third penetration by overseas brands.

However, whole sectors of consumer advertising such as cars, certain kinds of foods and some kinds of financial services such as mortgages are wholly or largely absent from the screen. Mr MacDonald said that "it would be better if the industry could develop its own code of conduct and police itself, as in other countries – but frankly it's not yet in a position to do so".

EUROPEAN NEWS DIGEST

Schneider head shuns summons

Mr Didier Pineau-Valencienne, chairman of the French industrial group Schneider, is to ignore a summons by Belgian authorities involved in a fraud inquiry. A Belgian legal official said an investigating magistrate, Mr Jean-Claude Van Espen, had summoned Mr Pineau-Valencienne to Brussels for an interview tomorrow. On Wednesday Schneider said it had taken steps to get an annulment of the legal proceedings taken against Mr Pineau-Valencienne in Belgium which led to a 12-day spell in prison in late May and early June. The company has said its chairman is willing to co-operate with Belgian officials, but only in France and under the supervision of French legal authorities.

Mr Pineau-Valencienne was arrested in May after he went voluntarily to Brussels to be interviewed by Mr Van Espen, who is investigating alleged fraud in the affairs of Cofibel and Cofimines, Schneider's Belgian units. Schneider said its lawyers believed the magistrate violated the 1959 European Convention on judicial co-operation and Belgian rules of procedure in criminal investigations. *Reuter, Paris*

Ukraine warning on N-treaty

The chairman of the Ukrainian parliament's foreign affairs commission signalled yesterday that the former Soviet republic might delay joining the Nuclear Non-Proliferation Treaty (NPT). President Leonid Kuchma (left) has said he will present the NPT, under which Ukraine would give up nuclear weapons permanently, to the communist-dominated assembly in October for approval. President Kuchma is due to visit the US in November, and Washington has put pressure on Kiev to join the pact. But Mr Boris Olinyk, chairman of the influential foreign affairs commission, said parliament would sign up for the NPT "when we are ready". "This won't happen so quickly. This time we have to be careful. One should not make romantic statements about a non-nuclear zone when all around us are nuclear states." Many Ukrainian leaders, including Mr Alexander Moroz, chairman of parliament, have criticised the US for dragging its feet on a promised $350m (£225.8m) in disarmament aid. *Reuter, Kiev*

Closure at Tula arms plant

Russia's Tula arms factory stopped production yesterday for the first time in its 300-year history when it was unable to pay its workers, the Itar-Tass news agency reported yesterday. Customers, including the state, have not been paying the factory for orders and production at the plant, 175km south-east of Moscow, has fallen 97 per cent in three years. Only 40 per cent of the workers were paid in June and the factory did not pay anyone in July or August. Workers have been put on leave until October 1. The factory had tried to stay afloat by increasing its output of hunting weapons after it stopped making submachine guns, one of its last key military products, in January. *AP, Tula*

VAT savings elude Germans

German companies and financial authorities have not benefited from the expected savings following the abolition of VAT after the creation of the European internal market in 1992, according to a government report. The new VAT law which applies during the present transition period has created "an almost incomprehensible amount" of extra work, according to companies and tax advisers. Government brochures, explaining the new regulations, were not available soon enough, the report said. Companies, especially smaller and medium-sized ones which were expected to benefit most from the single market, complained about the extra work resulting from new reporting requirements and more complicated searches for business partners' VAT identification numbers. Financial and personnel savings had not been possible, the report added, and differing legal and tax systems in the 12 EU member countries meant that computer software programmes needed to be constantly updated. *Michael Lindemann, Bonn*

Cables to anchor Pisa tower

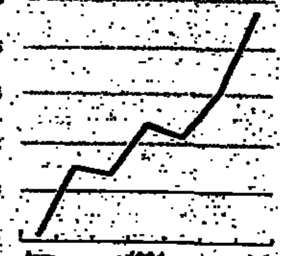
Scientists plan to anchor the Leaning Tower of Pisa to thick steel cables buried deep underground to help stop it tilting further. Mr Michele Jamiolkowksi, an engineer working with other experts to save the tower, said yesterday that work on the project would start next month. It would involve sinking 10 steel cables up to 50m below ground and anchoring them to a reinforced concrete neck that would be built around the base of the 14th century tower, which leans about 5m off the perpendicular. . The scheme is a temporary solution until a more permanent way to stabilise the tower's famous slant can be found. *Reuter, Pisa*

Stalemate in fishing dispute

The Norwegian and Icelandic foreign ministers failed at a meeting of Nordic states yesterday to make progress in a dispute concerning fishing rights around the Svalbard islands. Mr Bjorn Tore Grodal, Norway's foreign minister, and Mr Jon Baldvin Hannibaldsson, his Icelandic counterpart, agreed at the meeting to open a dialogue but came no nearer to a solution to the dispute. "We agreed to disagree," said Mr Grodal. Norway has sovereign rights over Svalbard and claims the right to regulate fishing in the islands' 200-mile economic zone in the Barents Sea. This is disputed by Iceland. *Hilary Barnes, Copenhagen*

ECONOMIC WATCH

Germany's output buoyant



Source: Datastream

German industrial production in July rose 2.2 per cent from June and 7.5 per cent against the same month last year, according to preliminary figures released by the federal statistics office. The office warned, however, the figure would be revised down by 1.3 percentage points once final data had been collected, but analysts said the final rate of 0.9 per cent would still be strong. Final figures for June were revised upwards by 0.8 percentage point, taking the monthly rise to 1.8 per cent. Figures for June and July – the two-month period diminishes seasonal factors – show production in manufacturing industry increased 5.9 per cent against the same period last year. Overall industrial production rose 5.2 per cent against the two-month period a year ago, with the largest rises coming in investment goods, up 7.9 per cent, and raw materials and production goods, up 6.2 per cent. *Michael Lindemann, Bonn*

■ Norway's unemployment rate in August fell to 5.6 per cent of the workforce compared with 5.8 per cent in July, according to figures released yesterday by the Norwegian Labour Directorate. The number of jobless in August fell to 118,448 people from 124,347 in July.

■ The Dutch government said yesterday that wage increases negotiated as part of collective labour agreements would have risen a modest 0.8 per cent during the 12 months ending December 1994.

Lesson for man who hopes to tame Eta

The Spanish justice minister's anti-terrorist policy appears to have backfired, writes Tom Burns

EUROPEAN PROFILE

While the IRA ceasefire nudges the British and Irish governments towards framing a peace settlement for Northern Ireland, politicians in Spain are at odds over how to deal with Eta, the Basque separatist organisation which to date has given no sign of ending a campaign of violence that, like Ulster's, stretches back 25 years.

The row centres on a discreet partial parole policy for selected members of the 525-strong jail population of Eta members – a terrorist prison count that bears comparison with that of Northern Ireland. This policy is sponsored by Mr Juan Alberto Belloch who in May added the responsibilities of the Interior Ministry to his existing job of justice minister.

An independently-minded magistrate before he joined the socialist government last year and now considered one of the most influential members of Mr Felipe González's cabinet, Mr Belloch has discovered that dealing with Eta as a minister is a lot more complicated than passing sentences on the group's gunmen in a courtroom.

His partial parole policy, which has been fiercely rejected by the conservative Partido Popular opposition and has had no immediate impact on Eta's commitment to violence, threatens to derail both his own reputation as a minister and the Spanish parliament's long-standing bi-partisan approach to terrorism.

Mr Belloch seeks with his initiative to hasten the end of Eta by denting the separatist organisation's "patriots behind bars" propaganda.

Critics contend that the policy risks allowing Eta to raise its operational ability by regrouping released gunmen and by attracting new recruits on the grounds that the government is "soft" on terrorism.

Known as the *Biministrio* because of his dual ministerial responsibilities, Mr Belloch had a second successive day of talks yesterday with opposition parties in preparation for a formal all-party of meeting this month which will attempt to re-establish a consensus on counter-terrorism policy.

Criticised: Spanish justice minister Juan Alberto Belloch

Mr Belloch faced hostile questioning in parliament a month ago when he admitted that 14 Eta members, who were not named but are understood to be serving long sentences on murder counts, had received partial paroles which allow them out of prison during daytime and at weekends.

The controversy over the disclosure of the policy coincided with an Eta bomb attack in Madrid that killed one of Spain's key army officers, General Francisco Veguillas who as director-general of defence policy had played a key role in the modernisation of Spain's armed forces.

Mr Belloch was accused in parliament of failing to consult the opposition over his initiative and of breaking a formal understanding that any partial freedoms for jailed Eta members would only follow a sustained ceasefire by the separatist organisation. "The (bi-partisan) agreement was that while Eta continued to kill, *Etarras* would go to prison, not leave it," said the conservative opposition spokesman, Mr Federico Trillo.

Herri Batasuna, the radical Basque nationalist coalition that supports Eta's separatist gunmen and has close links with Ireland's Sinn Fein, yesterday called on the Spanish government to imitate the example of the British cabinet by recognising the political nature of violence in the Basque country, writes Tom Burns. "The logic of the [John] Major government is in direct contrast to the closed and hostile position of the Spanish government which, in the words of [interior and justice minister Juan Alberto] Belloch, has only yesterday rejected all avenues towards an understanding and called, once more, for repression," the Basque coalition said in a *statement. The Basques* described the developments in Ireland as "common sense".

The row over the prison policy continued during August as youths sympathetic to Eta clashed with security forces during the Basque region's summer fiestas. Earlier this week, on the peak day for returning holidaymakers, Eta showed its muscle again when it took a leaf from the IRA's violence manual and bombed railway tracks linking the cities of Pamplona and Zaragoza.

As one of the chief legal officers in Bilbao, the main city in the Basque region before he became a minister, Mr Belloch balanced stiff sentences for Eta gunmen with a close watch on the possible maltreatment of separatist suspects. He took a particularly strong line in supporting fellow magistrates investigating a celebrated case concerning police involvement in a shadowy anti-Eta death squad.

To the minister's acute embarrassment, the initial details of his controversial partial parole initiative coincided with the extension of similar partial freedom privileges to two former police officers who in 1991 received 108-year sentences for their part in the anti-Eta death squad. Mr Belloch knew both men well from his days as a magistrate in Bilbao.

The minister hotly denied that the former policemen had gained a partial parole in *exchange for remaining silent* over the government's alleged involvement in the "dirty war" against the separatists.

Mr Belloch argued that by extending an olive branch to members of Eta who had shown good conduct in jail he could drive a wedge between those who wanted to break with the violence and those who remained hard-core terrorists.

The storm created over his initiative has now prompted Mr Belloch into hawkish language. "While I am minister there will be no relationships, no negotiations, no dialogue, no taking of any temperatures and no contact of any kind with the terrorists," he said after meeting the conservative party spokesman on security affairs.

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NEWS: THE AMERICAS

US N-waste clean-up under attack

By James Harding in Washington

The US department of energy's programme for cleaning up nuclear waste sites is extremely expensive and often ineffective, because of its failure to adopt new technologies, according to a General Accounting Office report.

The Congressional auditor's review of use of innovative technology in nuclear waste operations notes that, although the department has received $23bn (£14.9bn) for environmental management since 1989, "little clean-up has resulted".

The result has been that, during the last five years, only about 10 per cent of the department's contaminated sites have been cleaned or closed, the GAO observed. During the past 40 years, more than 1bn cubic feet of hazardous and radioactive waste at weapons' plants has been disposed of. Many of the containers housing that waste are now unsafe.

"As a result of earlier disposal practices, soil and groundwater contamination is now widespread," it said. The GAO said that more than 5,700 individual contaminated areas have been identified on department lands.

"Even where new technology has been successfully demonstrated, agency officials are reluctant to try new approaches, tending instead to choose conventional techniques to clean up their facilities," the report says.

Resistance to innovative techniques is due in part to the department's reliance on "on-site contractors who may favour particular technologies on the basis of their own experiences and investments", and local governments which "view faster clean-up as a threat to local economies" and see little incentive to adopt more efficient methods.

The GAO stresses that developing less costly and more effective technologies may be the only way the US can afford the cleansings, which the department recently estimated would cost $300bn in the next 30 years.

The department, which requested the review in January 1993, said yesterday it was taking steps to encourage technological innovation. "This is a problem we've known about for some time and, over the last two years, we have been trying to come up with ways of utilising new technologies," said Mr Gerald Boyd, director of the Office of Special Projects in technology development.

However, the GAO pointed out that one of the other reasons for the tendency to use conventional techniques was "the co-ordination flaws in the department's clean-up program. Individual offices have not worked together... to overcome the resistance to using improved technology, nor have offices worked together to develop a comprehensive assessment of technology needs," the report said.

The GAO cited a few cases of the department having made substantial efforts to develop new technologies. It mentioned the vitrification that turns waste into glass for easier disposal at the Hanford Site, near Richland, Washington.

It also suggests considering innovations such as heating the ground to vaporise liquid contaminants, injecting air into wells, and digging trenches to create chemical barriers so as to separate dissolved contaminants from ground water.

Ricardo Alarcón arrives for the talks in New York Picture: AP

The US and Cuba yesterday concluded a first round of talks about migration, which the US State Department called "serious, professional and business-like", writes James Harding from Washington.

Mr Ricardo Alarcón, the former foreign minister leading the Cuban delegation, had said, before the talks in New York, that the only way to stop the exodus of Cubans to the US was for Washington to end its 32-year-old embargo against Cuba.

But Mr Michael Skol, heading the US side, maintained its position that it would discuss only migration matters.

US manufacturing output slows

By George Graham in Washington

Activity in US manufacturing slowed down in August, but inflationary pressures continued to rise, according to the National Association of Purchasing Managers' monthly index.

The NAPM index fell to 56.2 per cent last month, a drop from the 57.8 per cent recorded in July, but still a level indicating strong expansion of the economy.

"The past relationship between the purchasing managers' index and the overall economy indicates that if the PMI were to average 56.2 per cent for all of 1994, then real gross domestic growth should approximate 4.2 per cent," said Mr Ralph Kauffman, chairman of the association's business survey committee.

However, the NAPM's index of prices paid for materials rose in August to 74.5 per cent, with every manufacturing sector reporting higher prices in August than in July.

"This increase in material prices is one of the strongest concerns of purchasers, with some indicating inability to raise product prices to cover the increased material prices," said Mr Kauffman.

Poor delivery performance by suppliers was also now a prime concern for purchasing executives, said Mr Kauffman, with deliveries becoming much slower in August as many material suppliers were now operating at maximum capacity. Printing and publishing, plastics and rubber, clothing, textiles and glass were among the industries reporting the most trouble in obtaining deliveries.

Financial markets, meanwhile, are closely watching today's employment statistics for further confirmation that the pace of growth is slowing.

The unemployment rate dropped in July to 6.1 per cent, close to the rate at which many economists believe the labour market will start to tighten and wage demands start to rise, and a further drop could prompt the Federal Reserve to tighten monetary policy further.

One indicator that has suggested there is more slack left in the labour market is an index of help-wanted advertising compiled by the Conference Board, a New York-based organisation with more than 2,000 companies among its members. That index rose only slightly to 121 in July after dropping in June.

Mexico high-level drug claim denied

By Damian Fraser in Mexico City

The office of Mexico's attorney-general has dismissed allegations by one of its former high-ranking employees that senior government and party officials are involved with drug traffickers.

Mr Eduardo Valle, until earlier this year a senior aide in the office, has alleged that a cabinet minister has links with the powerful Gulf of Mexico drug cartel.

Mr Valle's accusations appear to be based on at least one meeting which the minister is known to have had with a 31-year-old Mexican woman.

Some investigators see an involvement by Mr Juan García Abrego, one of the most powerful of Mexico's drug barons.

Mr Valle, who resigned from the attorney-general's office after claiming that his efforts to investigate the cartel were being blocked by other police officials, has further alleged that the security team of Mr Luis Donaldo Colosio, the ruling party's presidential candidate who was assassinated this year, had been infiltrated by the Gulf cartel. Mr Valle believes that the cartel may have ordered the assassination.

Mr Valle has also criticised the new attorney-general for appointing drug enforcement agents who, in Mr Valle's opinion, are protectors of drug traffickers.

The attorney-general's office interviewed Mr Valle last week in Washington, where he is now living. It then stated there was a "lack of evidence to determine any responsibility of public servants mentioned by Mr Eduardo Valle in whatever activity connected with the so-called Gulf Cartel."

It said there was no evidence to suggest Mr Colosio's security team had been infiltrated by drug traffickers.

Mr Valle had been hired by Mr Jorge Carpizo, a former attorney-general and now the interior minister. Mr Valle is a former leftist student leader and politician, and officials have sought to discredit him as unreliable and possibly unstable.

His accusations have generated wide publicity in Mexico's independent press but state-controlled radio and television have been instructed to keep him off the air. A prominent radio host was recently fired for interviewing Mr Valle.

Bermuda plans tougher rules for insurance market

By Richard Lapper

The Bermuda government has announced plans to tighten its insurance regulations, in a move designed to affirm the long-term stability and financial health of its rapidly growing commercial insurance and reinsurance market.

Over the last two years between $4.5bn and $5bn (£3.2bn) of capital has been pumped into the island, much of it directed towards the formation of eight new companies specialising in catastrophe risk.

The government aims to update a framework developed largely to control an industry dominated by captive companies – subsidiaries formed by industrial and service companies mainly to insure the risk of their parents.

The changes, which are expected to come into force by the end of 1995, were announced yesterday by Mr David Saul, the minister of finance, and include a range of tough new requirements.

Highly capitalised insurers writing significant amounts of "direct excess liability" and/or "property catastrophe reinsurance" will be required to demonstrate minimum capital of $100m, while some other insurers will also need to show higher levels of capital.

Solvency margins – the yardstick which compares net assets as a percentage of premium income and measures the financial health of an insurer – are to be radically tightened. These will be adjusted to levels which in some cases are more stringent than the international norm. The heavily capitalised companies will need to show solvency margins to at least 50 per cent, for example.

"The significant changes that have taken place in the Bermuda marketplace now require change in the insurance regulatory system," said Mr Saul. It was no longer appropriate to apply one set of regulations to all Bermuda insurance companies, he added.

The proposals "address the concerns held in London [one of the centres of the world's reinsurance market] that, come the next hurricane, some of these new reinsurers will simply head for the hills," said Mr Roger Scotton, director of information at the Bermuda Insurance Institute.

Argentina prepares major second round of privatisations

By Stephen Fidler, Latin America Editor

The Argentine government is planning a second round of privatisations, to complete its transfer of federal enterprises to the private sector.

Mr Domingo Cavallo, economy minister, said the remaining privatisations, to take place by the end of 1995, would include the sale of all airports, three nuclear power plants, the post office, the federal mint and the country's largest petrochemicals plant. He gave no estimate of how much the new privatisations would raise.

The next round is to include enterprises which, for various reasons, it has been difficult to privatise in the past.

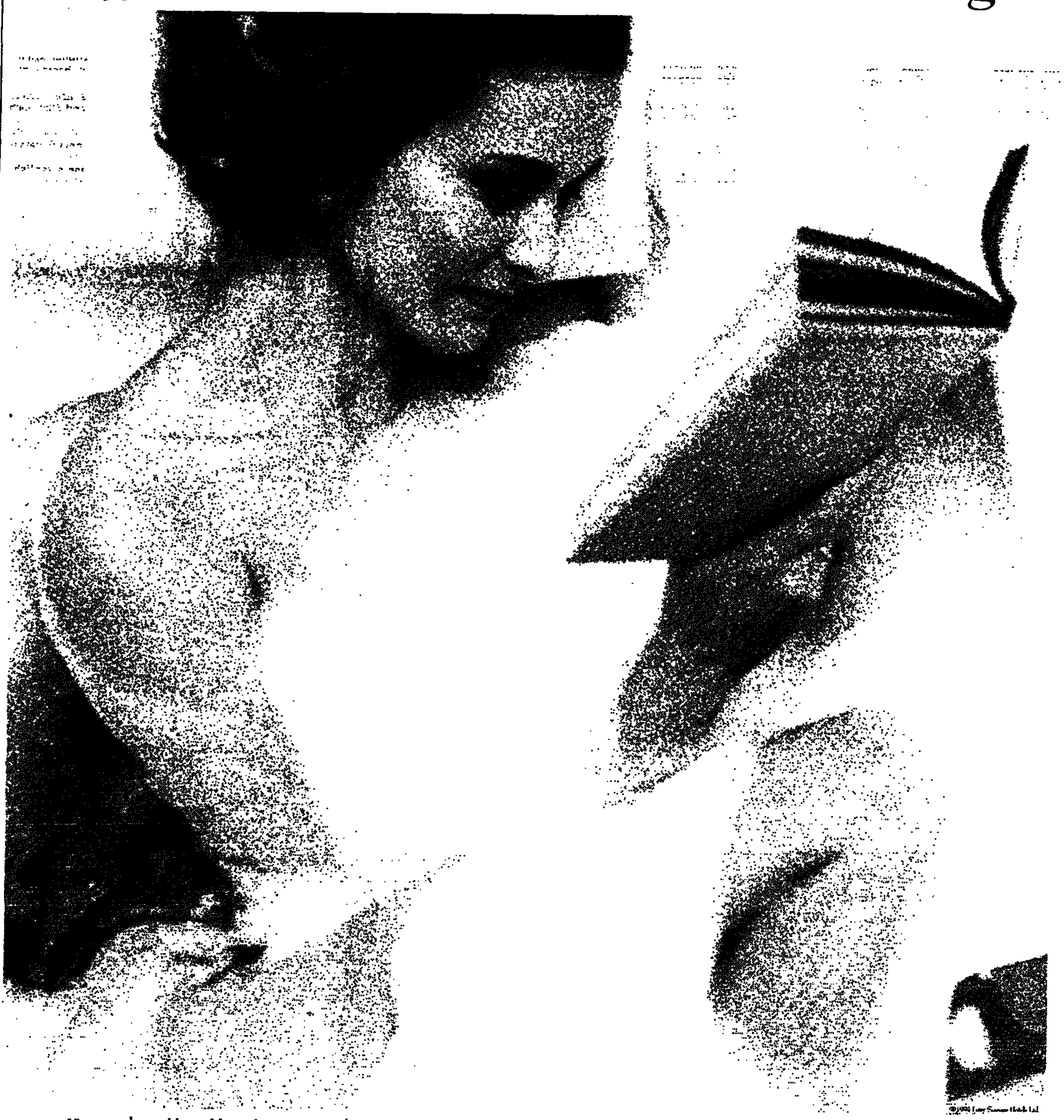
For example, the country's petrochemicals industry is in deep recession, with competition from cheap imports. previous privatisation of the airports, of which there are about two dozen in the country, has been resisted by the Argentine air force, which has an important role in airport management.

Mr Cavallo, who was speaking to Argentine bankers, was also underlining the government's determination to keep public finances in order through 1994 and 1995.

He announced a hiring freeze in the public sector, including the military, and indicated vacancies would be left unfilled. Public spending on non-salary, non-investment areas would also be cut by 10 per cent, he said.

A similar 10 per cent cut was announced last year by Mr Cavallo but most ministries undershot their budgets anyway. According to Consensus Economics, a London-based economics consultancy, the average of private forecasts for the Argentine budget this year is for a surplus of 0.6 per cent.

"I'm arriving tonight and I have no time to pack. How much do I have to bring?"



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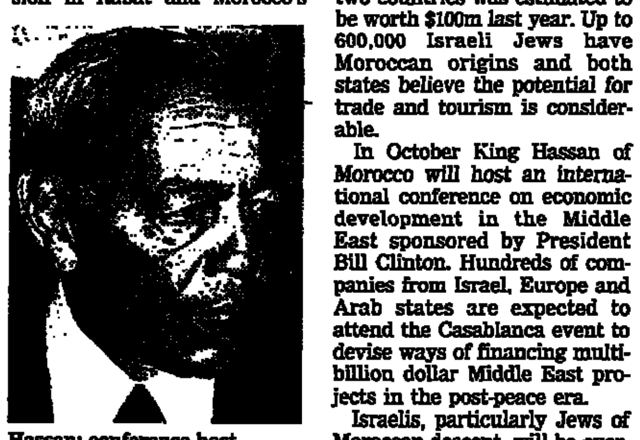
Morocco and Israel to open liaison offices

By Julian Ozanne in Jerusalem

Israel and Morocco moved towards establishing full diplomatic relations yesterday, marking a another breach in the wall of Arab economic and political isolation which has surrounded the Jewish state since its creation in 1948.

Morocco will become the second Arab state to have direct ties with Israel after Egypt signed a full peace with its neighbour in 1979. Although Israel and Morocco will initially open "liaison offices" rather than embassies, Israel's foreign ministry said its mission in Rabat and Morocco's mission in Tel Aviv would be staffed by diplomats and cover all economic, cultural, trade and diplomatic activities including issuing visas.



Hassan: conference host

Mr Shimon Peres, Israeli foreign minister, said the move paved the way to "an opening of a regional system of relations". Israeli officials said other Arab and Islamic states, such as Tunisia, Indonesia, Malaysia, Kuwait and Oman could soon follow Rabat's lead. They also said the step erodes the Arab economic boycott of Israel, which the Israel Chambers of Commerce estimates has cost the Jewish state about $50bn (£32bn) in lost trade and investment since 1950.

Morocco's decision to open its liaison office in Tel Aviv follows international diplomatic practice of not recognising Jerusalem as the capital of Israel. King Hassan of Morocco is also chairman of the Islamic Conference Organisation's Jerusalem committee and as such is committed to reversing Israel's assertion of sovereignty over the city.

The kingdom also said, in a separate statement aimed at maintaining a balance between Israel and the Palestinian self-rule areas, it would open a liaison office in Gaza for relations with "Mr Yassir Arafat, President of the State of Palestine".

Israel has long maintained clandestine relations with Morocco and trade between the two countries was estimated to be worth $100m last year. Up to 600,000 Israeli Jews have Moroccan origins and both states believe the potential for trade and tourism is considerable.

In October King Hassan of Morocco will host an international conference on economic development in the Middle East sponsored by President Bill Clinton. Hundreds of companies from Israel, Europe and Arab states are expected to attend the Casablanca event to devise ways of financing multi-billion dollar Middle East projects in the post-peace era.

Israelis, particularly Jews of Moroccan descent, will be overjoyed by the move in a country where many people judge the peace process by the extent to which it ends Israel's isolation.

Israeli businessmen will also hope relations with Morocco will help end the Arab economic boycott. Jordan and Egypt both have formal trade relations with Israel. Qatar is talking with Jerusalem about a natural gas project and Kuwait and Saudi Arabia have eased some of the boycott rules to attract US companies which do business with Israel. Egyptian industrialists, who visited Israel last week, said the time had come to "warm-up" the 16-year-old "cold peace" with Israel and forge much deeper economic, trade and financial ties. A formal suspension of the boycott, however, is unlikely until Israel withdraws from the still-occupied West Bank and Golan Heights.

'Mr Clean' foresees new power bloc

Japan could soon have a coherent opposition, **William Dawkins** writes

Japan's fragmented opposition parties are just weeks away from pooling forces to create the first powerful opposition group for nearly 50 years.

That is the belief of former prime minister Toshiki Kaifu, 64, father of the reforms to have swept Japanese politics over the past year. The "Mr Clean" of Japanese politics yesterday took a break from campaigning in his home prefecture of Aichi, the heartland of the Japanese car industry, which is due for a critical by-election in 10 days, to explain his hopes.

If Mr Kaifu is right, Japan's frustrated economic partners will have cause to throw their hats in the air. Lack of a coherent opposition during nearly four decades of one-party rule by the conservative Liberal Democratic party is commonly held to have suffocated political debate.

This has bolstered the power of the state bureaucracy, often tempted by economic protectionism, which is blamed for contributing to Japan's huge current account surplus. The new group, provisionally named the "new-new party" by the Japanese press, would have about 200 lower house seats, so rivalling the LDP for size.

Mr Kaifu created a stir two months ago by leaving the LDP, in a failed attempt for the premiership, which was seen by his enemies as fumbled opportunism. He was prompted, he said, by distaste for his colleagues' decision to form a coalition with the LDP's traditional foe, the Social Democratic party, to attain the parliamentary majority needed to return to power after a humiliating year in opposition.

Toshiki Kaifu: much depends on Aichi by-election Terry Kirk

"The LDP lost all the honour of the past by choosing a prime minister from the SDP, just to get back into government. It is my responsibility, as the one who started reform, to say this was wrong," said Mr Kaifu. He had repeatedly warned that the LDP was losing its way ever since being ousted by the old guard three years ago for being too keen on reform.

In the weeks since leaving the LDP, Mr Kaifu has built a prominent place in the pro-reform opposition. He is working with Japan's other two most popular post-war prime ministers, Mr Morihiro Hosokawa and Mr Tsutomu Hata, to create the new super-party, the subject of intense backroom bargaining over the past month.

Mr Kaifu was certain the 10 parliamentary opposition groups will shortly agree a common policy platform and joint electoral candidates. "I assure you we will succeed," he said. He is ostentatiously non-committal on suggestions that he is a candidate to lead the new super-party.

Much depends on the outcome of the Aichi by-election for an upper house seat on September 11. It will give a measure of Mr Kaifu's own electoral value, as leader of the campaign, and could help win over those opposition members still doubtful about joining the super-party. It will also be watched closely by the government coalition, as the first election test since it grabbed power at the end of June.

Aichi's upper house poll will also give a clue to whether or not political reform really will shake up Japan's power structure, because it will take place under electoral rules similar to those due to come into effect for the more powerful lower house next year.

There will be single candidates from the government and opposition coalition groups, fighting openly for a single seat, rather than a cosy share-out of several seats, as under the old multi-seat constituency system.

Mr Kaifu, making a brief stop in his Tokyo office before returning to Aichi to campaign for the opposition candidate there, believes the outcome will make or break the government. "It is going to be difficult for an administration composed of opposite poles to come up with an ideology. The only way they can survive is to maintain the *status quo*," he said.

"The SDP and LDP are like oil and water. They cannot compromise, and can only delay on important decisions like tax and post-war reparations," he argues.

In theory, the opposition should have an advantage in Aichi. Mr Koshiro Ishida, chairman of the Buddhist-backed Komeito, the Clean Government party, the second largest opposition group, has a seat there. There is also support from local unions linked to the Democratic Socialist Party, an important opposition group supported by Toyota, the powerful car maker based there.

All this invites the question of whether the reforms started by Mr Kaifu in 1991 really will produce a new breed of skilled politicians better able to make policies that respond to voters' aspirations, rather than schemes for power.

"Yes, reform did go through a lot of detours," he admitted, referring to the success of LDP party elders in watering down his original plans. Yet a vital general principle has been introduced. Politicians will henceforth be held more directly accountable for their policies, by virtue of a more competitive electoral system, Mr Kaifu argued.

That will make the job of prime ministers in the mid-1990s far harder than was the case when Mr Kaifu held the post. When asked if he wants another crack at the leadership, post-reform, Mr Kaifu laughed uproariously. "That's not in my mind just now," he said. "I just want politics to be clean."

Jiang set to raise profile with tour

By Tony Walker in Beijing

When President Jiang Zemin of China arrives in Moscow today at the start of a four-day visit, his purpose will be twofold: he will be seeking to promote a closer commercial and strategic partnership with Russia and at the same time boosting his own stock on the international stage.

With China in a transitional phase in preparation for a new generation of leaders (Mr Deng Xiaoping, the paramount leader, is in failing health), it is important for Mr Jiang to assume the aura of an international figure.

His visit to Moscow, and subsequently to Ukraine and France, is part of attempts to bolster his appeal. It follows his appearance at the Asia Pacific Economic Co-operation (Apec) forum in Seattle last November, which was also aimed at enhancing his credibility at home and abroad.

Mr Jiang is due to initial a document on border demarcation in the remote western region of China and sign an accord in which the two countries agree not to target each other with nuclear missiles.

All this is a far cry from the tension between the communist giants in the early 1960s, which led to a brief border war and frequent skirmishes. When Mr Jiang initials the border agreement, 99 per cent of border disputes will have been resolved, according to an official Xinhua news agency despatch.

The two sides will also sign a communiqué aimed at providing a framework for development of political and commercial ties into the next century. While two-way trade at $2.245bn (£1.46bn) for the first six months of this year is down 39 per cent on the same period last year, Beijing and Moscow envisage the continued development of a substantial trading relationship.

Two-way trade reached $7.68bn last year, an increase of 30 per cent over the year before, making Russia China's seventh largest trading partner. Exchanges this year have been hit by a 50 per cent slump in the first six months in border trade because of disagreements over customs and immigration issues.

Russia is proving sensitive to a flood of Chinese traders moving across the border into its far-eastern regions. Russian officials fear this is a form of "colonisation", with the Chinese over-staying their visas.

"This situation is not good and should be corrected or stopped," Mr Jiang told Russian reporters in Beijing this week, but he added, using a Chinese idiom: "These are only problems in the course of development. We should not give up eating for fear of choking."

Mr Jiang's visit to Moscow follows increasingly frequent contacts between Chinese and Russian officials in the past year or so.

Russian visitors to China this year included Mr Victor Chernomyrdin, the prime minister, and Mr Andrei Kozyrev, the foreign minister. China's foreign minister, Mr Qian Qichen and the defence minister, Mr Chi Haotian, both visited Moscow this year.

China and Russia are seeking to extend their defence co-operation, with the Chinese pressing the Russians to supply technology for a fighter aircraft. China has also been a big purchaser of Russian defence equipment, with orders for 26 Su27 fighters, and plans for another squadron.

China has approved its first private bank with the shareholders coming from domestic private companies, according to the official Xinhua news agency, Tony Walker writes.

The People's Bank, China's central bank, gave its approval to the new institution as part of continuing reforms of the banking sector.

China has been licensing some new banks, but they have been connected with public sector companies or municipalities.

Mr Jing Shuping, chairman of the All-China Federation of Industry and Commerce, said the new bank would not accept foreign shareholders, but it would act for foreign clients.

Little detail of the new bank was provided in a brief Xinhua despatch, but Mr Jing said the bank's initial capital would be Yn2bn (£151.5m).

The establishment of the privately owned bank was described as a "significant experiment" in China's banking reforms.

Shingles drug output ordered suspended

By Emiko Terazono in Tokyo

Japan's ministry of health and welfare yesterday ordered the suspension of production of a shingles drug whose side effects allegedly killed 15 patients last year.

The ministry said Nippon Shoji violated the Drugs, Cosmetics and Medical Instruments Law, as the company only reported one death of a patient during clinical trials, when in fact three patients had died. The suspension will last 105 days from next Monday.

Sorivudine, the shingles drug, was brought to the market last September, but was withdrawn two months later following the deaths.

Until now, the health ministry, Nippon Shoji and doctors have been blaming each other for the deaths. Doctors and the company have been pointing fingers at the ministry for allowing the drug to be marketed in the first place, while the doctors have been blamed for not reading the warning against prescribing Sorivudine along with certain other drugs.

In order to avoid criticism, the ministry is not withdrawing official approval of Sorivudine, since it would raise questions over why the government authorised the drug in the first place.

Meanwhile, Nippon Shoji is under investigation from the Securities and Exchange Surveillance Commission, for alleged insider trading. A total of 139 company employees and their relatives are alleged to have sold the company's stock ahead of the announcement of the deaths.

Analysts say the suspension would be a blow to Nippon Shoji's earnings. Some 91 per cent of the company's revenue comes from drug wholesaling, but profit margins on the business are thin and about a quarter of earnings derive from drug manufacturing.

Population curbs have worked, but there is still far to go, **Mark Nicholson** reports

Where Egypt boasts decade of progress

None of the women attending the Cairo Family Planning Association clinic in the sprawling suburb of Zeinhom yesterday knew that the world's biggest population conference was due to open up the road on Monday. Few probably cared; none seemed the least persuaded that seeking family planning advice might be un-Islamic.

"I'm convinced Islam is not against family planning," said Hoda, a 30-year-old woman swathed in a black Hejab veil, the badge of Islamic piety. "My brother-in-law is a religious man and he ordered his wife not to use contraception. He tried to deter me, but I didn't listen. I encouraged all my friends to come to the clinic. Now all of them blossom like fresh jasmine."

Hoda has stopped at five children, and was having a routine check on her IUD, a visit which cost 25 piastres (about 5p) at this private clinic. Her 21-year-old sister had come along too. She has two daughters and said that was enough: "I have an IUD, and don't plan to have any more children. My husband would like a son, but he doesn't pressure me."

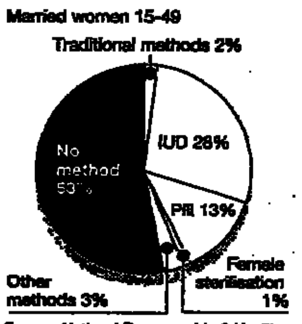
For most women visiting the clinic, said Dr Mawahab el-Mouelhy, a UK and US-educated doctor, birth control is a practical consideration, determined usually by women's concerns for their health and, perhaps more commonly, because they simply cannot afford to clothe, feed, educate or house more children.

For all the criticism by Egypt's religious conservatives of the population policy agenda of Monday's International Conference on Population and Development, the strictures of Islam have so far done little to put a brake on a decade of progress in population control, which Egypt's policymakers and aid workers consider little short of remarkable.

The population growth rate has plunged from 3 per cent to about 2.1 per cent. A fertility rate of 5.3 in 1980 has come back to an average of 3.9 births per woman, 2.9 in urban areas. Knowledge of family planning among married couples is almost universal, while 47 per cent of women use contraception in Egypt (predominantly IUD devices and the pill) against 24 per cent in 1980.

Family planning methods

Married women 15-49



Source: National Demographic & Health Survey, Egypt

Behind such results lie 20 years of concerted government policy, backed by foreign aid, of which USAID has provided 75 per cent of all family planning assistance, a total of about $170m (£113m), to fill the media with birth control information and stock and staff hundreds of clinics, enough for 96 per cent of all Egyptian women to be within 5km of a family planning centre.

But cheered as the government and organisations such as USAID are by such results, they remain far from meeting their ambition of creating for Egypt a population growth which the country can comfortably sustain. At present rates, Egypt's 60m population grows by 1m every 10 months.

The constraints on the country's most basic resources are severe enough; all but 4 per cent of its 1m sq km is desert. A recent report by the UN's Economic and Social Commission for Western Asia reckoned Egypt was consuming 95 per cent of its available water sources and faced a water deficit by the year 2000.

By most estimates, the economy needs to generate about 500,000 jobs a year to mop up new entrants to the labour force, implying an annual growth rate of 5 per cent of GDP, more than twice the most optimistic estimates of present growth. The World Bank reckons that at least 5m new jobs must be created by 2000 even to halve the present unemployment rate of 20 per cent.

But population experts tend to agree that cutting the growth rate to perhaps 1.9 per cent is unlikely to come by providing more pills, coils or publicity campaigns alone.

"There is something missing," says Dr el-Mouelhy. "Which is the status of women in this country. We need to work hard on this. It's not just family planning, its about education of women."

Emphasis on the education of girls is a central theme of the conference's draft document to be discussed next week in Cairo, and one which groups such as USAID and the Population Council hope the conference's hosts will take to heart. A well established concomitant between raised educational standards among girls and subsequent falls in fertility rates is seen as the key to future policy in countries such as Egypt, these groups argue.

A guide to the task lying ahead for Egypt lies in the fact that, by conservative estimates, at least 66 per cent of Egyptian women are illiterate.

Changing that will require more than the provision of teachers and schools, of which Egypt must already build on average one a day to keep up with the rise in schoolchildren. It will need an attempt to alter many ingrained attitudes, and is likely to depend on an improved economic climate. All that before the air can thicken with the scent of jasmine.

Falling prosperity hurts family planning

Paul Adams reports on Nigeria's special problems

In a continent where population growth outstrips economic growth, Nigeria at 90m people is by far the biggest nation in Africa.

Until 1988, when Prof Olikoye Ransome-Kuti, then health minister, launched a national population policy, Nigerians had been so proud of their self-styled tag as the "giant of Africa" that, as long as the oil money rolled in, they regarded high population growth as healthy, and saw little point in controlling the rate of growth.

Nigeria was then believed to have at least 110m people, putting it among the 10 largest populations in the world. The 1991 census caused a surprise: Nigeria had only 88.5m. The over-estimate was a result of inflated numbers by tribal chiefs and regional governors hoping to boost their political clout and revenue allocation.

The United Nations Population Fund has projected the average population growth rate between 1990 and 1995 as 3.1 per cent (which would double the population in about 30 years) with the birth rate at 45 per 1,000 persons and death rate at 14 per 1,000 (including infant mortality rate of 96).

The UN estimates the fertility rate at 6.1 children per woman, while the national policy set a target of only four. Since the 1970s the urban population has risen from 30 per cent to nearly half and the rate of growth in the towns is higher at 5.5 per cent.

Generalising about Nigeria, a country of over 200 ethnic groups and very diverse cultures, is often deceptive and never more so than in attitudes to education and the role of women.

In the mainly Christian south, female education and literacy are far higher than in the predominantly Moslem north, where even the discussion of birth control is not widely accepted.

In the south-east there is a high percentage of Catholics especially among the Ibo tribe. The alarming decline in social services during the 1990s has halted the progress towards family planning clinics and universal primary education especially in the north, bolstering the influence of the Koranic schools.

Even nationally, the UN paints a bleak picture. "The status of women in Nigeria has improved little over the last decade. In general, they are considered second-class citizens not by law but because of the social and cultural climate" says the UNFPA's 1993 review of the national programme. "Although some women have made considerable progress in the the academic and business world, Nigerian women, particularly rural, are clearly underprivileged."

The literacy rate for women is 31 per cent (54 per cent for men) and more than half of all Nigerian women were married at the age of 15.

The problem of education lies not just with women. As a prominent women's group in Nigeria points out, there may be a target of four children per woman, but in a polygamous society many men far exceed that figure.

If the prospect of curtailing population growth is limited, the outlook for economic growth has become bleak. Despite the massive oil boom in the 1970s, the GDP income per capita is down to around $290, about the level of 1963.

In the period, Indonesia has risen from a lower per capita income to a level three times that of Nigeria. In January's budget speech by finance minister Mr Kalu I Kalu, commented on three years of political uncertainty, capital flight government over-spending, which "resulted in a further decline in GDP growth rate from 4.8 per cent in 1991 to 2.9 per cent in 1993.

"A comparison with the average growth rate of 5 per cent from 1988-91 demonstrates the enormity of the task involved in resuscitating the economy in 1994 and beyond," concluded Mr Kalu. Since then strikes, shortages and a dearth of foreign exchange have taken the economy further down hill. Nigeria accounts for about half of West Africa's population and whereas Ghanaians once poured into Nigeria for a better life, the chances of reverse migration look ever more likely.

NEWS IN BRIEF

Japanese car sales up sharply

Car sales in Japan showed their second successive month of growth in August, rising at a sharply increased pace which industry officials said was evidence demand was recovering, **Gordon Cramb reports from Tokyo.** The 9.3 per cent year-on-year jump in unit sales of passenger cars, according to the Japan Automobile Dealers' Association yesterday, compares with a 1.5 per cent upturn in July.

Demand was strongest for new subcompact models, to which leading manufacturers have attached competitive price tags. The figures exclude the special category of mini-vehicles with an engine capacity below 660cc, sales of which have been on a rising trend for some months.

Analysts said the improvement in the consumer market followed tax rebates provided as part of a government package to stimulate the economy.

Sales of all vehicles except minicars and minivans rose 12 per cent, a third successive gain and the first double-digit increase since August 1990. This stemmed in part from an 18.6 per cent leap in truck sales. Many older commercial vehicles are being replaced because of tightened emission and load requirements.

Toyota, the motor industry leader, sold 14.6 per cent more vehicles than a year ago, but the second-ranking Nissan remained out of favour, with a 3 per cent fall.

S African strikers fired on

Labour unrest in South Africa drew a violent response from the security forces yesterday when police fired on striking forestry workers, injuring at least 20. Private security personnel used stun grenades and rubber bullets to quell a disturbance by striking gold miners, **Patti Waldmeir reports from Johannesburg.**

Five miners were injured in demonstrations, including a sit-in by 300 miners underground at an Anglo American mine near Carletonville, south-west of Johannesburg, the company said. Violence also broke out at a forestry plantation near Piet Retief, close to South Africa's border with Swaziland. Police said they fired birdshot to disperse 4,000 workers, injuring at least 20. Local officials of the African National Congress said four had died, but police denied this.

Labour unrest, either backed by unions or unofficial, has increased in South Africa since the black-majority government of President Nelson Mandela came to power in May. Pay is the biggest issue, as black workers raise their expectations following the demise of apartheid and white minority rule.

Uzbek dissident faces trial

Authorities in Uzbekistan have charged the country's most prominent dissident with anti-state activities – at the same time as the former Soviet Central Asian republic celebrates its third anniversary of independence, described by its president as "a guarantee of freedom", **John Lloyd reports from Moscow.**

Ms Vassilya Inoyatova, who leads the banned opposition group Birlik (Unity), said earlier this week that she had been charged with breaking article 60 of the Uzbek criminal code, after police found two sacks of the newspaper Erk, also banned, in her flat. No date for her trial has yet been set. All opposition activity is banned in Uzbekistan.

Zaire wants Rwandans out

Zaire wants the 1.2m Rwandan refugees on its territory to leave by the end of the month, Justice Minister Kamanda Wa Kamanda told representatives of Rwanda's new government yesterday, **Reuter reports from Goma.** Speaking at the start of a ministerial meeting with the Rwandan government, Mr Kamanda said Zaire would encourage the return of the Rwandan refugees by halting the activities of Rwandans hostile to the new government in Kigali and disarming and encamping members of the former Rwandan government army.

NEWS: INTERNATIONAL

Iran presses Gulf states for tough security pact

By Frances Williams in Geneva

Iran yesterday called for a "defensive security" pact among Gulf countries, which would include an accord to curb the build-up of conventional arms in the region and the outlawing of weapons of mass destruction.

The proposal, the most detailed Iran has yet put forward, came in a speech to the United Nations Disarmament Conference by Mr Ali Akbar Velayati, foreign minister. However, it is likely to get a cool reception from Iran's Arab neighbours who distrust Tehran's brand of Islamic radicalism and its perceived ambitions for regional superpower status.

Yesterday's initiative reflects Tehran's concern at its exclusion from existing Gulf security arrangements since the defeat of Iraq in 1991 and its desire to reduce US influence in the region.

Iran, which has been seeking to rebuild its armed forces since the devastating eight-year war with Iraq ended in 1988, has viewed with disquiet the heavy armaments spending by Gulf states aimed at deterring Tehran's territorial claims and meeting any threat from Iraq.

Mr Velayati said more than $40bn (£25.8bn) worth of armaments was flowing into the Arab Gulf states, the highest rate of arms purchase in the world.

"Something must be done to stop this senseless arms race," he said.

The first step towards a defensive security pact would be the creation of a regional security forum where "threat perceptions and security concerns" could be aired openly and confidence-building measures discussed.

To pave the way for a zone free of all weapons of mass destruction all states in the region should renew their commitment to renouncing nuclear weapons, join the Nuclear Non-Proliferation Treaty and ratify the United Nations convention which outlaws chemical weapons.

More controversially, Mr Velayati urged "regional provisions" to guard against cheating on nuclear, chemical and biological arms.

On conventional arms, the proposal was more tentative. Mr Velayati said possible measures included an exchange of information on weapons stocks, agreement to cut military spending and a ceiling on arms imports.

Control of Angola beyond Savimbi's grasp

But both sides may have reason not to sign a peace accord now, writes Nicholas Shaxson

The refugees now occupying Luanda's ruined Hotel Turismo can stand on its rocket-shattered upper floors and view the nearby headquarters of Sonangol, Angola's state oil company and the government's main financial support against the rebel National Union for the Total Independence of Angola (Unita).

The Turismo used to house senior Unita rebel officers following a May 1991 peace agreement with the ruling MPLA government. But its shattered walls now testify to the collapse of that peace. Unita's leader, Mr Jonas Savimbi, who rejected defeat in UN-sponsored elections in late 1992, led his followers back to war, leaving many of his officials stationed at the Turismo to die in the ensuing MPLA onslaught.

More than nine months of peace talks in the Zambian capital, Lusaka, have since aimed at ending Africa's longest-running war, which started soon after Angola's independence from Portugal in 1975. For more than six months, UN mediator Alioune Blondin Beye has been saying the two sides are close to a deal.

Yet some observers in Luanda dismiss the talks as nothing more than a show aimed at heading off tightened UN sanctions and at obscuring events on the battlefield.

Both sides may have reason not to sign an accord now. Government generals, advancing on the ground, could win back more land, while Unita's demands to control the governorship of Huambo, their capital, have not been met.

The government's capture last month of key diamond areas around the north-eastern town of Cafunfo dealt a powerful blow to the rebels, who use diamonds to buy weapons. Last year some $250m (£168m) worth of diamonds came out of Angola, mostly from the Cafunfo area.

The loss will not cut off all of Mr Savimbi's funds. The diamond fields are huge and lawless; they swarm with small-time but well-armed diggers, many of whom will remain loyal to the Unita cause.

But the defeats around Cafunfo, the loss of the northern provincial capital of Ndalatando in early May, and other government victories underline the rebels' weakness. The government thrusts into the north have been led by freshly trained Angolan counter-insurgency commandos, with help from South African and other mercenaries.

The besieged government garrison in the central highlands town of Cuito, in the heart of traditional Unita territory, surrounded, starved and pounded by heavy artillery for a year and a half, last month blasted rebel forces from positions in the town centre and scattered them into the hills.

Mr Savimbi's western cold-war supporters have now gone home. The collapsed 1991 accords were part of a wider regional deal which linked the departure of 50,000 Cuban troops, who had fought alongside the MPLA since

Jonas Savimbi: rejected poll defeat

1975, with the withdrawal of South African forces from Namibia, Angola's southern neighbour. South Africa and Namibia are now ruled by traditional MPLA allies.

The government produces more than 500,000 barrels a day of oil, last year worth some $2.75bn, more than 60 per cent of which has gone directly into the defence budget. Arms shipments from Spain, Israel, Brazil and the former Soviet Union are being unloaded openly at Luanda's airport while military units press gang teenagers onto army trucks in the streets of the capital.

Unita's representative to the UN, Mr Gardo Muekalia, last week said he expected a government offensive on Soyo, Angola's second-most productive oil town which produced some 35,000 b/d before Unita captured it last year.

Yet Huambo still remains the key diplomatic and military prize. Unita refers to Huambo as its "Jerusalem" and sees control of the city as the key to any peace agreement. But the government says its refusal to accept a Unita governor in Huambo is "not negotiable".

Mr Savimbi appears unwilling, or unable, to concede what is demanded of him. To be denied governorship of Huambo, after nearly 20 years of civil war, may be impossible for him to sell to his generals and to his people.

He also knows the battle to control all Angola, by military or by electoral means, is beyond his grasp. He may thus think his best hope is to carve out a kingdom of his own centred on Huambo, its borders frozen in place by UN peacekeepers called in, should a peace agreement be signed.

But the Luanda government and the outside world, afraid of a *de facto* partition of Angola, want to avoid such Unita control at Huambo. UN sanctions already ban supplies of fuel and arms to the rebels and they also threaten to close down Unita bank accounts and offices abroad if the rebel group does not give up demands to install its own governor in Huambo.

Mr Savimbi has said new sanctions will scotch the talks and the UN has repeatedly backed down from applying them. The clear knowledge on both sides that the war is unwinnable may prove enough incentive to find peace. The government knows Mr Savimbi cannot be fully defeated. Even on a shoestring budget his rebels can continue to make the countryside ungovernable.

But diplomats in Luanda also believe an agreement in Lusaka could be one of the smaller hurdles on the road to a lasting peace in Angola.

The UN is trying to work out a formula for peace involving revival of the 1991 accords. But the extent of mistrust stirred up by the disaster of those very accords has severely damaged chances of real peace. When Mr Savimbi lost elections in 1992, he used stockpiles of weapons hidden in the bush to storm back across much of Angola, overwhelming the largely demobilised government forces in town after town. Neither side will find it easy to disarm this time.

Many Unita soldiers who were in the Hotel Turismo and other parts of Luanda when the war broke out again were hunted down and killed. "They shot me in my office," Unita general Mukumba Gato, who escaped from Luanda with a bullet in his arm, said in Huambo earlier this year. "I am afraid to go back."

Climate talks end without accord

By Frances Williams

Representatives from more than 150 nations will today end a two-week meeting on the UN climate change treaty with no agreement on proposals to toughen curbs on emissions of greenhouse gases.

This is despite a widespread acceptance by governments that existing curbs are inadequate to prevent a dangerous atmospheric build-up of carbon dioxide and other gases that cause global warming. "It is clear that [present] commitments are not adequate," Mr Raúl Estrada-Oyuela of Argentina, the meeting chairman, said yesterday.

The 1992 climate change convention, now ratified by 93 nations, requires developed countries to bring carbon dioxide emissions back to 1990 levels by the year 2000. But no pledges are required for post-2000, nor do developing countries yet have any obligations to cut emissions.

One group, led by Germany, Denmark and the Netherlands, has been lobbying for a new protocol to be adopted at the first conference of the parties to the convention in Berlin next spring.

Germany's environment minister, Mr Klaus Töpfer, this week proposed a 15-20 per cent cut in carbon dioxide emissions of industrialised nations by 2005.

But for a protocol to be adopted in Berlin, drafts must be circulated by September 28, six months ahead. Conference officials said the US, Britain, China, India and the petroleum-exporting countries were among those dragging their heels.

Britain and the US are said to be holding out for a satisfactory deal on "joint implementation", enabling them to meet part of their obligations by financing projects to reduce third world emissions.

The Berlin meeting must decide on the permanent home of the convention secretariat, provisionally based in Geneva. Geneva, Bonn and Montevideo have made formal offers to host the secretariat, which will have a staff of 50 and an annual budget of $10m-$15m.

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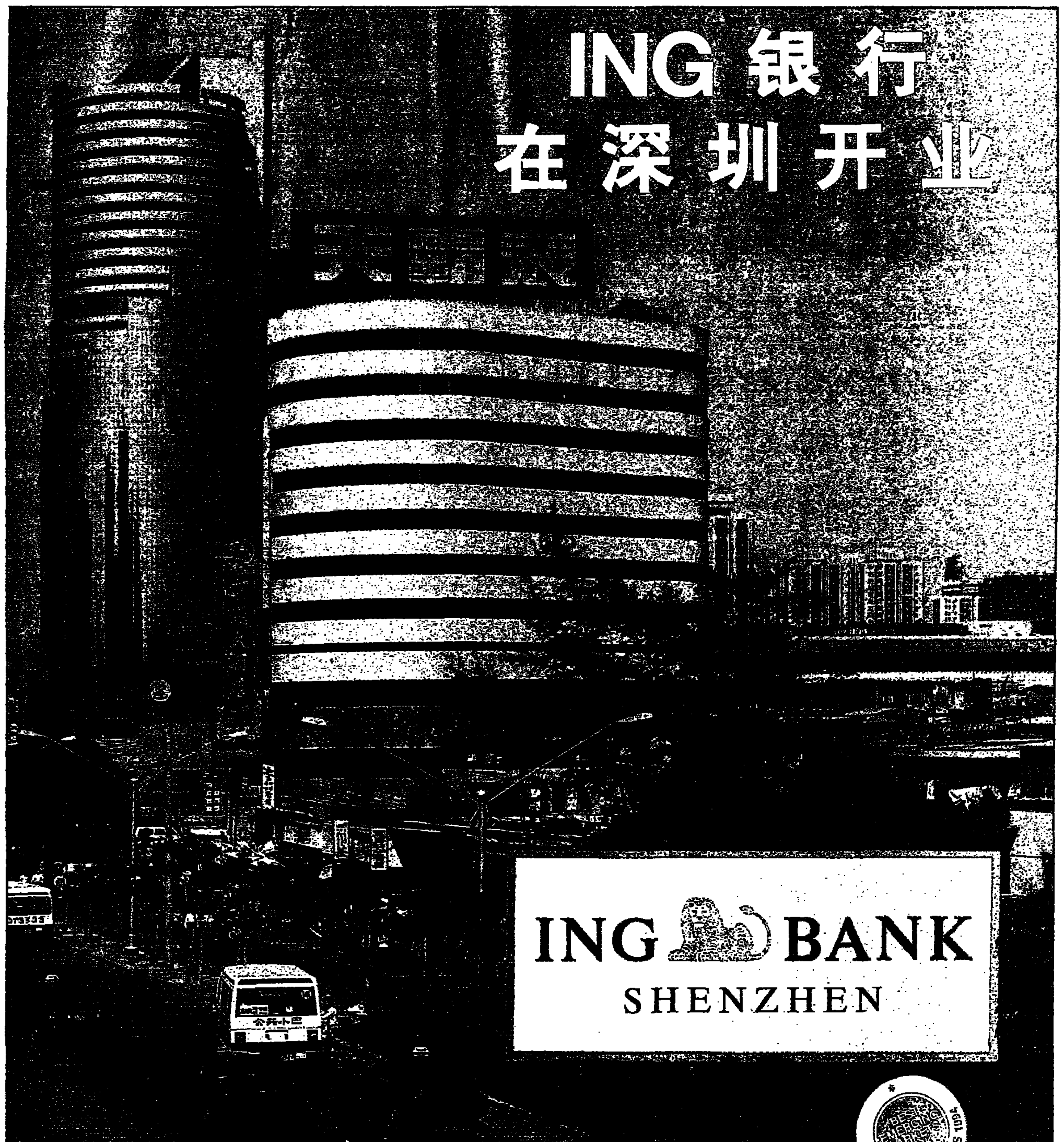

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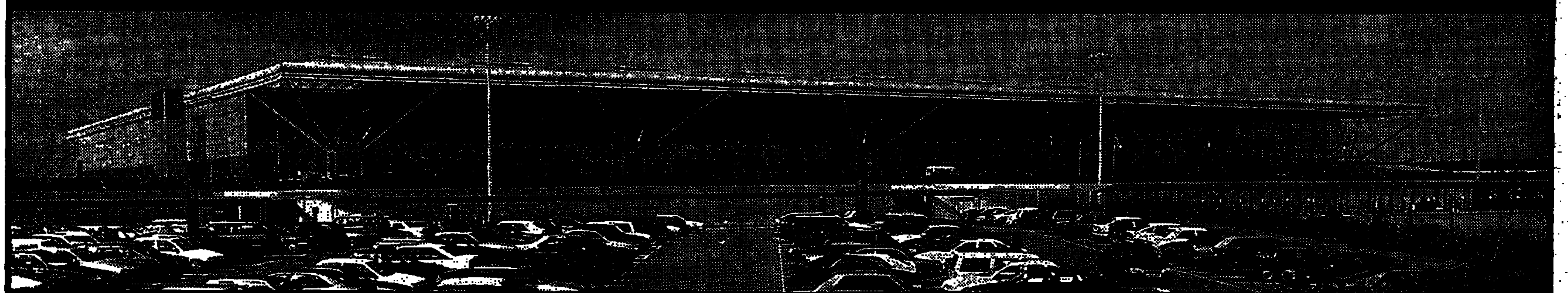

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NEWS: WORLD TRADE

Airline chiefs bemoan $10m-a-day subsidies

By Paul Betts, Aerospace Correspondent

The European Commission is consulting the European airline industry and governments on tightening existing state aid rules for airlines at a time when government subsidies to European national carriers are running at a rate of $10m a day.

But Mr Herman De Croo, chairman of the European Commission's independent "wise men" committee for air transport, yesterday warned at a Financial Times aerospace conference that there was a risk that carriers seeking subsidies would receive their share of state aid before stricter guidelines came into force.

The "wise men" committee, which was set up by the Commission last year to draw up recommendations on the future of the European airline industry, is also due to meet at the end of this month Mr Marcelino Oreja, the new European transport commissioner, to discuss the issue.

One of the principal recommendations the committee made in its report in February was the establishment of clear guidelines on airline subsidies.

But Mr De Croo noted that, in July alone, the Commission approved state aid totalling $7.1bn to three airlines including TAP Air Portugal, Olympic Airways of Greece and Air France.

"This means that since August 1991 the Commission has approved state aids to European airlines totalling $10.35bn. That's roughly $10m a day," he told the FT conference.

"The tragedy of it all is that when the economy is improving, air transport is on the upswing, and most big airlines are finally making money, a hard core of state-owned majors appear unable to take any medicine at all," he added.

FT Conferences

Some European governments under political pressure from their country's labour organisations have in turn placed significant pressure on the Commission to allow state aid to airlines, Mr De Croo said.

The Commission's recent approval of state aid to a number of European airlines, especially a FFr20bn ($3.7bn) package to Air France, also came under heavy attack from senior airline industry executives at the FT conference.

Mr Robert Ayling, group managing director of British Airways, said the combined effects of liberalisation and the recession had created a two class airline industry in Europe.

The first involved airlines which have had to solve their problems on their own; the second included airlines which continued to defy the laws of economics and had enjoyed a bumper year for subsidies.

"We don't see why Air France should be protected to the detriment of other airlines which are not allowed to dip into their taxpayers pockets," he said.

The issue of state aid was an important test for the Commission. So far, Mr Ayling said, Brussels had "dramatically failed" this test and done "lasting damage" to its reputation.

Mr Jan Stenberg, president of Scandinavian Airlines System (SAS), also said the Commission's policy on state aid would slow down the overall European air transport deregulation process.

The policy was also attacked by Mr Hans Mirka, head of international operations at American Airlines, one of the two biggest US carriers, who said the recent subsidies to Air France, TAP and Olympic equalled more than 40 per cent of the total losses on all western airline scheduled international passenger services in the past four years.

He also said several European governments had moved aggressively to restrict the ability of US airlines to fly to and beyond their markets.

If other governments failed to match the US commitment to real competition, the US would be unable to continue its pro-competitive policies in international aviation, he said. "The result will inevitably be a return to the protectionism of the past."

AT&T in Chinese telecom project

AT&T has signed a partnership agreement worth $500m over five years to help develop advanced communications in the southern Chinese province of Guangdong, Reuter reports from Hong Kong.

Under the deal with the Guangdong Province Posts and Telecommunications Administrative Bureau and the Guangdong Machinery Import/Export Corporation, AT&T will provide network infrastructure equipment including advanced digital switching, optical transmission, wireless and operations systems.

The US telecommunications group will also establish a technical support centre in Guangzhou and will provide training for local managers and engineers.

AT&T said it expected to receive over $150m in orders this year from GPTB for its 5ESS-2000 switching, synchronous digital hierarchy transmission, digital cross-connect and operations systems and related equipment.

Southern Africa and EU plan trade pact

Foreign ministers of SADC – the 11-nation Southern African Development Community which South Africa joined on Monday – will meet their European Union counterparts in Berlin next week to set out a formal basis for trade and co-operation, the German ambassador to South Africa, Mr Hans-Christian Ueberschaer, said yesterday, Reuter reports from Cape Town.

Seeking a glass breakthrough

Michiyo Nakamoto reflects on a US-Japanese trade dispute

The warehouse of Matsumoto Avante, a Japanese glass wholesaler based in Tokyo, is not the kind of place normally to be associated with trade friction between the US and Japan.

Matsumoto is typical of small Japanese wholesale businesses, employing about 150 people and trying to make best of modest floor space in a country where property is expensive. Matsumoto, like other glass wholesalers, is the intermediary between manufacturer and user.

The future of such small wholesalers depends in part on the outcome of a US-Japan trade dispute over the flat glass market, which threatens to trigger sanctions against Japan and could change the way companies such as Matsumoto have done business for generations.

Flat glass is used mainly in the construction and automobile industries.

Negotiators from the US and Japan faced each other this week in an effort to resolve the row. It is one of the more thorny disputes among several which the two sides hope to resolve shortly. The US has to decide whether or not to start procedures under its Super 301 trade legislation against Japan.

Prospects for an agreement, however, remain slim.

The dispute over flat glass has all the ingredients of a classic US-Japan trade row.

The US accuses Japan of having a an anti-competitive market dominated by a handful of large domestic makers.

It says that there is a convoluted distribution system that relies on close relationships between businessmen with stakes in the industry and others, and that this system makes the market inaccessible to foreign players.

The Japanese government has responded with a promise to take action to make life easier for outside producers.

At stake is a market worth nearly Y3bn ($30m) in domestic sales a year, according to Japan's Ministry of International Trade and Industry.

The Japanese flat glass market, which has come under pressure in the past few years during the prolonged recession, is dominated by three manufacturers – Asahi Glass, Central Glass and Nippon Sheet Glass.

Asahi, which belongs to the Mitsubishi group, is 4.9 per cent owned by Mitsubishi Bank and 4.7 per cent by Mitsubishi Trust. Nippon Sheet Glass, a member of the Sumitomo group of companies, is 6.8 per cent owned by Sumitomo Trust, 5.4 per cent by Sumitomo Life Insurance and 4.9 per cent by Sumitomo Bank. Central Glass, meanwhile, has close relations with the Mitsui group, with more than 11 per cent of its shares owned by Mitsui-related companies.

The US claims that a close-knit group controlling a significant market breeds anti-competitive practices and creates a barrier to free market forces. It frustrates the ambitions of foreign makers looking to expand their business in Japan. The Japanese trade ministry counters, saying the market is not as closed as it might seem. In fact, Japan has a small trade deficit with the US in flat glass products.

Manfucturers in Japan, the US and the European Union produce primarily for their domestic markets.

Last year, Japan imported Y5bn worth of flat glass from the US while it exported only Y1.6bn in return. The amount of flat glass per capita that is imported into Japan is 1.5 times higher in Japan than in the US. Foreign glass accounted for 12.8 per cent of Japan's overall glass consumption in 1991, compared with 4.9 per cent in the US market, and 17.4 per cent in the EU.

The trade ministry also objects to claims of anti-competitive activity, citing an investigation by the Japanese Fair Trade Commission in June last year which, it says, found no evidence of breach of anti-monopoly laws.

A more recent Japanese government survey of flat glass wholesalers, conducted last December, found that the industry distribution system was dominated by small wholesalers which have limited warehouse and glass-cutting capacity, and little interest in handling foreign-made glass. The wholesalers said they found foreign imports uncompetitive in quality, delivery times and product reliability.

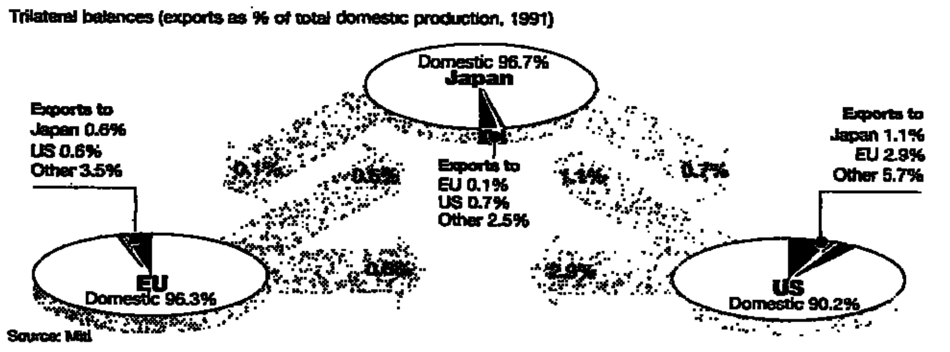
"We buy foreign product," said a representative of Matsumoto Avante, "but we do so to keep it in stock. We can't use it for specific contracts because delivery times are too long."

Foreign companies have to make an effort if they want to increase penetration of the Japanese market, Miti says.

The US companies looking to increase their share of the market have only a handful of representatives in Japan, says one Miti official. If they can get the kind of market share they already have with so little marketing effort, they must consider themselves to be doing very well. But if they want to compete with Japanese sales forces numbered in the thousands, they have to try harder, he says.

Trade in flat glass

Trilateral balances (exports as % of total domestic production, 1991)



Source: Miti

UAE clampdown clears shops of pirate videos

Shops in the United Arab Emirates pulled pirated videos and cassettes off the shelves to abide by the UAE's first copyright law which took effect yesterday, Reuter reports from Dubai.

Merchants selling fake cassette tapes, videos and software had until yesterday to abide by the law which says they must sell or rent only copyrighted products. Goods which do not have proper copyright certificates must be destroyed.

"From the first (of the month) onwards we can send out inspectors to look for these kinds of irregularities...for copyright violations," a Dubai Department of Economy official said.

Penalties include confiscation of goods, jail terms and fines of up to 10,000 dirhams ($2,700).

One Ministry of Information official said inspectors had been sent out to check that shops were not selling pirated goods but he did not say how many were visited.

The UAE in March became a member of the General Agreement on Tariffs and Trade, which has provisions to prevent the sale and trade of counterfeit goods.

It has also came under pressure from its western trading partners to protect trademarks and patents. The US estimates lost revenue of $156m a year in the UAE due to copyright violations.

One video shop worker, Ali Haider, said ministry inspectors visited the shop with a warning when the law was promulgated in March. Shops were given a grace period until Thursday.

"Unfortunately we removed all the English films from the racks and are selling only Hindi films," he said, adding they were stored in a back room but they might be re-exported.

One worker at a major supermarket in Abu Dhabi said the store re-exported more than 100,000 tapes for which it did not own copyrights. He said they were currently displaying only seven original titles but more were expected next week.

"This is the last day you can buy the fake ones...at 15 dirhams ($4). The originals are 50 dirhams ($14)," he said.

At another branch of the same supermarket a supervisor said officials cleared the shop of 50,000 dirhams ($14,000) worth of videos on Wednesday in preparation for the new law.

It is intended to prevent unauthorised reproduction of works of literature, art, films, video and audio tapes and software.

Juma Nabooda, Dubai's Chamber of Commerce president, said in a statement on Wednesday that the UAE would start implementing Gatt articles yesterday to coincide with the copyright law.

Peril of fragmentation over free trade pacts

David Pilling finds a UN economist warning Latin America against forming 'fortresses'

Latin America must not allow the web of free trade agreements across the region to fragment into "four or five fortresses", but should strive for greater integration, the UN Economic Commission for Latin America and the Caribbean urges.

Bilateral and multilateral accords, now numbering more than 30, could "merge into one great bloc or, on the downside, divide the region." Mr Gert Rosenthal, commission executive secretary, said in an interview.

As well as 22 bilateral accords, several sub-regional pacts have been formed recently, including the tripartite North American Free Trade Agreement of the US, Canada and Mexico; the Mercosur customs union of Argentina, Brazil, Paraguay and Uruguay; and the Group of Three, made up of Mexico, Colombia and Venezuela.

Blocs are also emerging in Central America and the Caribbean basin.

Mr Rosenthal said there was a danger that the outbreak of such accords was merely redirecting trade rather than creating it. Regional trade had grown "spectacularly" – exports within the region have increased at 50 per cent a year since 1990 – but it was very difficult to pinpoint cause and effect.

"We don't know how much of [the increasing trade] is due to the existence of preferential treatment, how much is due to the indirect effect of business communities becoming aware of each other, or how much would have happened anyway in the absence of a trade agreement."

What seemed certain was that nations on the margins of free trade pacts – such as Caribbean states in the case of Nafta – were likely to lose out, both in terms of trade and of investment, he said.

Even Brazil, Latin America's largest economy, had claimed that preferential agreements within Nafta, particularly those pertaining to capital goods, had resulted in lost trade worth hundreds of millions of dollars.

Multiple pacts had also created an administrative bureaucracy that militated against efficient commerce, Mr Rosenthal said. Tariffs on the same product could vary enormously, depending on the country of origin and the stage of a given treaty, most of which phased in preferential treatment.

Mr Rosenthal was not seeking to call a halt to the process. "What we're saying is: 'Why don't you proceed with these trade agreements in such a way as to minimise the risks of trade deviation and maximise the potential of trade creation?'"

Governments could move in this direction by standardising trade agreements, using Gatt rules as their starting point, and by broadening the range of goods covered by pacts. Nations should join existing accords rather than form bilateral alliances. "It is ridiculous that there are 22 bilateral trade agreements. We would like to see them multilateralised as quickly as possible."

In this respect, Mr Rosenthal thought Chile should join Nafta, rather than sign a separate accord with the US. He also supported Chile's initiative to become an associate member of Mercosur.

"I would like to see Chile taking on both commitments simultaneously," he said. "Conceptually, they are not saying they are going to join Nafta but turn their back on the rest of the region. They are trying to do in practice what we are preaching – that is to take on multiple commitments."

On the positive side, Mr Rosenthal thought that Latin American governments, nearly all civilian and democratically elected, shared a political vision of closer integration. "There is a more favourable environment for actually doing these things. There was a lot more rhetoric 10 or 15 years ago."

The concept of integration, in the 1960s driven by notions of import substitution, has now shifted to free-market terrain. "Governments are trying to rediscover the meaning of international integration in a more open trading system."

But the danger of economic fortresses and continental fragmentation still existed. One possibility – "not necessarily desirable" – was that political realities in the US would halt the expansion of Nafta and that Brazil's proposal for a South American free-trade area would take off. "Maybe, by 2000, you will have a fairly solid regional bloc in South America and another in North America.

"It is too early to tell where all this will lead," Mr Rosenthal said. "It could have a happy ending. On the other hand, the ending may be more complex."

If the rainforests are being destroyed at the rate of thousands of trees a minute, how can planting just a handful of seedlings make a difference?

A WWF – World Wide Fund For Nature tree nursery addresses some of the problems facing people that can force them to chop down trees.

Where hunger or poverty is the underlying cause of deforestation, we can provide fruit trees.

The villagers of Mugunga, Zaire, for example, eat papaya and mangoes from WWF trees. And rather than having to sell timber to buy other food, they can now sell the surplus fruit their nursery produces.

Where trees are chopped down for firewood, WWF and the local people can protect them by planting fast-growing varieties to form a renewable fuel source.

This is particularly valuable in the Impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The *Markhamia lutea* trees planted by WWF and local villages can be harvested within five or six years of planting.

Where trees are chopped down to be used for construction, as in Panama and Pakistan, we supply other species that are fast-growing and easily replaced.

These tree nurseries are just part of the work we do with the people of the tropical forests.

WWF sponsors students from developing countries on an agroforestry course at UPAZ University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods. New tracts of tropical forest would then have to be cleared every two or three years.

This unnecessary destruction can be prevented by combining modern techniques with traditional practices so that the same plot of land can be used to produce crops over and over again.

In La Planada, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

WWF is calling for the rate of deforestation in the tropics to be halved by 1995, and for there to be no net deforestation by the end of the century.

Write to the Membership Officer at the address below to find out how you can help us ensure that this generation does not continue to steal nature's capital from the next. It could be with a donation, or, appropriately enough, a legacy.

WWF World Wide Fund For Nature (formerly World Wildlife Fund)

International Secretariat, 1196 Gland, Switzerland.

FOR THE SAKE OF THE CHILDREN WE GAVE THEM A NURSERY.

Recovery curbs financial earnings

By Philip Coggan, Economics Correspondent

Britain's economic recovery had an unexpected side effect last year – it reduced overseas earnings from the financial services sector.

Overseas earnings from activities such as banking, insurance and share dealing fell to £15.6bn in 1993 from £16.1bn in 1992, according to figures released by British Invisibles, a trade group.

The main reason for the fall was an improved performance by overseas banks based in London. During the recession, bad debt problems caused many banks based in the UK to record losses, which count as a positive item in Britain's accounts. In 1993, economic recovery in Britain meant bad debt problems were reduced. Along with improved profits from securities dealing, this meant overseas banks could report and remit surpluses to parent companies. These count as a negative item on Britain's accounts.

The result was that the UK's income from direct investment, which recorded a surplus of £1.14bn in 1992, registered a deficit of £1.66bn in 1993.

The decline in earnings from direct investment was partly offset by two improvements in the financial services accounts. Strong capital markets meant net overseas earnings of UK securities dealers rose to £3.47bn in 1993, from £2.53bn in 1992.

Secondly, underwriting at Lloyd's of London, the insurance market, having recorded losses in 1990-1992, managed a small £76m surplus in 1993. Such figures for Lloyd's are calculated on a cashflow basis, rather than on the traditional basis, under which results are not announced for three years.

British Invisibles splits the overall figures for financial services earnings into two components: services (including fees, commissions, insurance and share dealing profits); and investment income (including portfolio investment by pension funds and direct investment).

While net earnings from services increased from £8.35bn in 1992 to £9.36bn in 1993, earnings from investment fell from £7.72bn to £6.24bn over the same period.

● Meanwhile, the patchy nature of Britain's recovery in consumer sentiment in the aftermath of April's tax increases was highlighted yesterday.

New credit data showed lending in the retail and new car loans sector weaker than expected in July, while home loans fell back sharply compared to a year ago.

Lending in finance houses remained relatively strong suggesting that consumers took advantage of heavy discounting in the summer sales.

The report, by Infolink, the independent credit group, showed credit in the retail sector 6.7 per cent higher in July than in July 1993.

Progress over fifth television channel for UK

By Raymond Snoddy

Britain's Independent Television Commission hopes to announce within the next two weeks the go ahead for a fifth national TV channel.

The final decision has to be taken by the members of the Commission but there are growing signs that the new channel is likely to go ahead and that, at least in theory, coverage could go as high as 70 per cent of the UK population.

If the ITC decides to go ahead, the new channel would be advertised in November with bids expected to be submitted within two or three months. A similar period would then be needed to look at the plans submitted and choose a winner by April or May 1995.

The main work now being undertaken by the Commission is to try to win permission to use more frequencies for the channel to take it beyond a minimum guaranteed coverage of around 52 per cent of the population.

There seems to be growing interest in bidding for the channel, particularly from the US and Canada, even though some of the potentially available frequencies have been reserved for the future development of digital terrestrial television in the UK. As well as launching a fifth channel using existing technology 12 new digital terrestrial channels would be feasible.

The ITC is now believed to be looking at having bidders present business plans covering the main possibilities – around 50 per cent coverage, 60 per cent and 70 per cent coverage. This will enable the work on the channel to go ahead while the ITC seeks permission to use the maximum number of frequencies. This involves getting permission from neighbouring governments, particularly the Irish Government.

A winner could be chosen but the licence not actually awarded until the maximum possible coverage is known.

Those who have expressed interest in the channel range from NBC, and other US networks to Mr Richard Branson's Virgin Group and a consortium bringing together Time Warner of the US, MAI the UK television and financial services group and Pearson, owners of the Financial Times.

Names rap Lloyd's figures

By Richard Lapper

Lloyd's of London has come under fire from a previously supportive group of Names for allegedly overstating the problems at the insurance market.

The Association of Lloyd's Members claims in its newsletter, published today, that Lloyd's solvency rules "appear to exaggerate solvency deficiencies and minimise allowances for potential profits".

Solvency rules govern the amount of capital which Names, the individuals whose assets support Lloyd's, must deposit with the market.

The association says Lloyd's could be double-counting up to £2bn in losses from claims on errors and omissions policies (which cover agents against negligence awards) and catastrophe reinsurance, and suggests Names are being asked unnecessarily for the money.

"These anomalies will prevent otherwise solvent Names from continuing to underwrite.. and alarm unnecessarily Names who have ceased to trade. In part they represent fictitious losses which do not exist and will never have to be paid," says an article headed "Lloyd's £2bn solvency anomaly."

Mr David Rowland, Lloyd's chairman, rejected the allegation, saying it mis-states the true position and holds out false hopes to many members.

Separately, Lloyd's said it expected gross premium income to rise to £8.72bn in 1994 from £8.61bn last year, according to information in its first quarterly business report.

Meanwhile Lloyd's is to re-enter the export credit insurance market after an absence of over 70 years. Syndicate 33, managed by Hiscox, a prominent agent, yesterday announced that it is to lead a new insurance facility through the Lloyd's market which will offer short-term cover against the insolvency or default of trade debtors.

Insurers at Lloyd's have been barred from underwriting risk for the private-sector market since the early 1920s.

British Gas restraint lifted

By Robert Corzine

British Gas was freed yesterday from regulatory restraints which have allowed its competitors to carve out an 84 per cent share of the lucrative £1.1bn a year market for large industrial customers.

Ofgas, the gas industry regulator, decided to suspend the requirement that British Gas sell to large industrial and commercial customers using 25,000 therms a year or more according to published, non-discriminatory price schedules.

The suspension will run for six months from October 1, during which time Ofgas will review the entire gas contract market above 2,500 therms.

The requirement lifted yesterday was imposed in 1989 as part of the government's efforts to introduce competition into the gas market. Independent gas companies, operating with minimal overheads and using British Gas pipelines, were quickly able to carve out a large market share by offering discounts of 10 per cent-20 per cent below the British Gas prices. Ofgas said the suspension depended upon British Gas maintaining a "non-discriminatory" pricing policy. It said evidence of the company selling gas at "broadly below cost," or using predatory pricing to regain market share could see a reimposition of price schedules.

Mr Norman Ellis, managing director of Kinetica, a joint venture between PowerGen and the US oil company Conoco, said Ofgas was "short-sighted" to allow British Gas to compete freely in the firm commercial market while independents are still barred from the residential market.

Iraq arms inquiry report is delayed

By John Mason, Law Courts Correspondent

The publication of Lord Justice Scott's report into the sale of defence equipment to Iraq has been delayed until early next year, it was announced yesterday.

The need to gather and assess additional evidence has meant the postponing of the report's release, originally scheduled for this autumn, a statement from the inquiry team said yesterday.

Lord Justice Scott has also decided to question two witnesses from the Secret Intelligence Service or MI6, it was disclosed.

One of the witnesses is a serving MI6 officer, the other a former officer with the service. The judge's decision to question them face to face follows extensive recent requests to both witnesses to supply further written evidence.

These requests followed evidence given to the inquiry by other witnesses about the role played by MI6 when defence-related equipment was exported to Iraq.

The two witnesses will be questioned about MI6's involvement in the consideration of granting export licences for defence equipment – in particular those awarded to Matrix Churchill, the Midlands engineering company, for the export of "dual-use" machine tools.

The two MI6 witnesses will give evidence in closed sessions later this month. The exact dates have not been released "for reasons of national security and for the personal safety of the officers concerned", said the statement.

Inquiry secretary Mr Christopher Muttukumaru said: "Lord Justice Scott has already written a large part of the report and continues to write while the investigative work goes on.

"Requests for evidence and for information are still being sent out. The need to gather and assess additional evidence has inevitably extended the timetable.

"The judge hopes to have completed the draft by the end of the year and he will then give witnesses whom he proposes to criticise an opportunity to comment before the report is finalised."

Competition cuts cost of calls

BT is being forced to limit its prices, writes Andrew Adonis

It is not just British Telecommunications hype: the telephone really is getting steadily cheaper to use, particularly for business callers who clock up long-distance and international minutes. And prices are set to fall further as regulation and competition continue to bite.

This week's price cuts from BT mean that UK long-distance calls are barely a third of the cost a decade ago, allowing for inflation. From the end of this month a three-minute weekday morning call from London to Hereford will cost 30p. In January this year it was 50p.

Not all prices have come down. Line rental charges have risen by 10 per cent in real terms over the past decade, and will continue rising. Oftel, the telecoms regulator, supports BT's efforts to reduce its deficit on maintaining basic line connections.

But it has forced the company to bring its call charges down sharply, reflecting the falling cost of delivering calls as new technology slashes overheads.

Oftel's price cap obliges BT to reduce its total charges by 7.5 per cent a year, once an increase for inflation has been allowed for.

In round figures that equals price cuts worth £500m, with £100m recouped from a 2 per cent real-terms increase in line rental charges. BT is free to target the cuts as it chooses.

Mr Michael Hepher, BT's managing director, says three factors determine its price-cutting strategy. Ideally, cuts will stimulate usage; they ought to give BT "the most favourable stance against the competition"; and they should "do something to sparkle the imagination".

The abolition of the morning peak rate earlier this year met the last two criteria. This week's abolition of the higher long-distance rate, at a cost of £244m over a full year, was firmly directed at the first and second – particularly at competition in the business market.

Mercury, BT's main competitor, has a quarter of the large business market and about two-thirds of the City of London's outgoing traffic. But it is increasingly hampered by BT's falling prices on one hand, and by new entrants pursuing its larger customers on the other.

The price gap between BT and Mercury is steadily narrowing in the business market (see graph). For many large businesses the saving is down to 6 per cent or less for UK traffic.

Mr Terry Rhodes, Mercury's competition director, says his company has to break out of the "BT-but-cheaper" syndrome. He believes the message still has strong appeal to small and medium-sized business – those with annual telecoms bills under £150,000.

But Mercury's efforts are shifting to building "brand loyalty" through added-value business services such as network management and improved data telecoms links.

A host of new operators has moved into the City, the UK's telecoms honeypot, and targetting Mercury first and foremost.

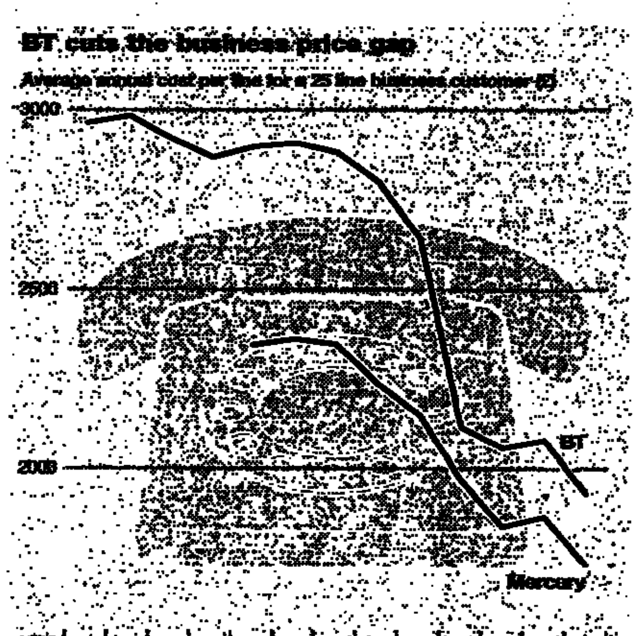
The most successful to date appears to be Worldcom, a US group which set up in London in 1991. Worldcom re-sells international lines to big business at a discount. It boasts 250 business customers, and claims to have cornered nearly 3 per cent of the UK's outgoing international telecoms traffic. "Our marketing is based on 10 to 15 per cent off Mercury's best business price," says Mr David Hardwick, managing director.

Worldcom is also about to enter the small and medium-size business market, and plans to offer a long-distance UK service in addition to its international service, inter-connecting to existing long-distance networks.

MFS, another US group, is already active in the UK long-distance business. Launched in March this year, MFS offers free line rental to customers with usage bills of £600 or more per line per year. Its fibre network covers most of the City and Docklands, and is being built out to Southwark and Westminster.

The company is considering a plan to extend the network to the Thames Valley, putting MFS within reach of 35 per cent of the UK's large telecoms users.

Long-distance telecoms capacity is now abundant, giving plenty of scope for re-sellers to expand. In addition to BT and Mercury, Energis, a subsidiary of the National Grid which has erected a long-distance network on electricity pylons, is opening for business. The regional electricity companies covering Yorkshire and Manchester are building their own networks, and targeting business users.



Littlewoods sign £14m deal for FA Cup

By Neil Buckley

Littlewoods Pools yesterday became the first sponsor of the 123-year old English Football Association Cup, in a deal worth £14m.

Together with investment in support activities, Littlewoods is committing a total of £20m over four years - the biggest-ever sports sponsorship package. It will have its name attached not only to the prestigious FA Cup, but to the FA Charity Shield – for which the previous season's cup winners and league champions play at the start of each season.

The FA Cup will not be renamed after the company, but will be known as the "FA Cup, sponsored by Littlewoods". The Charity Shield will be known as the "Littlewoods Pools FA Charity Shield".

The FA launched a marketing programme in June combining the commercial rights of the FA and Wembley Stadium, called Total Football. This consisting of a number of sponsorship packages, capable of accommodating up to 12 companies.

Companies joining the programme were given the opportunity to upgrade their package to become "presenting sponsor" of the FA Cup. The FA selected Littlewoods as the "ideal candidate".

Mr Trevor Philips, the FA's commercial director, said the decision to seek sponsorship of the cup "was not taken lightly".

"It would only have happened with the right company. I cannot think of a company that is a more integral part of football, and certainly none has made a greater financial contribution."

Littlewoods, the family-owned football pools and retailing business, has previously sponsored the League Cup, now sponsored by Coca-Cola.

Mr Barry Dale, Littlewoods group chief executive, said there was a "clear and mutually beneficial link" between Littlewoods and football.

Littlewoods Pools' move is partly an attempt to bolster its position in the face of competition from the National Lottery, due to be launched later this year.

"Sponsoring the Cup will enable us to harness the benefits of our overall investments in football in promoting our business in these more competitive times," Mr Dale said.

The deal is also a boost for the FA, whose finances have been strained by England's failure to qualify for this year's World Cup finals, and two years without competitive matches before hosting the 1996 European Championship.

Britain in brief

Man held in shooting of accountant

One man was being held in Istanbul prison yesterday and an arrest warrant had been issued for two others in connection with the shooting last month of a UK accountant working for Coopers & Lybrand, the court appointed administrators of Polly Peck International, the UK fruit to electronics group.

Islam Elma was being held at Bayrampasa prison under a court order pending trial related to the shooting of Mr David Adams, who received five gunshot wounds to the leg.

Mr Elma, 21, reportedly told police he had mistaken Mr Adams for Mr Chris Howells, the accountant directly involved in trying to recover the local PPI assets now in dispute with the former PPI chairman Mr Asil Nadir.

Last night, lawyers working for the administrators had still to be provided with copies of the court proceedings. But local newspapers reported Mr Elma and two others had been offered TL250m (£5,000) and shares in Vestel Electronik, PPI's listed Istanbul consumer electronics subsidiary, to shoot the Coopers accountant.

Mr Elma is said to have confessed to the attack after being apprehended in the act of another shooting, according to the newspaper reports.

ABB to shed jobs in York

ABB Transportation's York train and tram-building works is to shed 289 jobs, the company said yesterday.

The redundancies follow a shortage of orders at the plant, which has no work beyond October next year.

ABB Transportation, part of Asea Brown Boveri, said it could see a long-term future but was facing a short-term crisis. Mr Bo Södersten, managing director and chief executive, said it was essential that new orders were won quickly.

Mr Bill Beaman, the plant's engineering and electrical union convenor, said redundancies had been expected, but not so many.

ABB said it was chasing orders under the government's private finance initiative.

Euro-post for Labour chief

Mr Tony Blair, leader of Britain's opposition Labour party, yesterday announced that he is to replace the party's long-standing general secretary Mr Larry Whitty.

Mr Whitty, who has held the post for nine years, will be moved to the newly-created position of European Co-ordinator with responsibility for liaising with the party's Euro-MPs.

The appointment will give Mr Blair the opportunity to get a candidate of his choice installed as head of the party's organisation as part of a wider shake-up at the party's Walworth Road headquarters.

BA staff in strike vote

British Airways cabin crew in Manchester and Birmingham have voted for strike action in a dispute over holidays and allowances.

Three-quarters of the 565 cabin crew members of the TGWU transport union returned their papers in the ballot. Of those, 88 per cent supported strike action. Meetings are to be held early next week to try to resolve the dispute.

Meanwhile talks are continuing in an effort to resolve a pay dispute at Britannia Airways.

NEWS: ULSTER

Business hopes for up to 30,000 jobs

By Tim Coone in Dublin

The IRA ceasefire has injected a mood of cautious optimism into Northern Ireland's business community, but has also triggered warnings that economic support to the province must be maintained to underpin the hoped-for peace.

Business leaders and economists in Belfast estimate that a lasting peace could bring between 15,000 and 30,000 new jobs to the province over the next five years, but this would be partially offset by job losses in security-related employment.

One other benefit from a peace settlement, mentioned by a number of business executives yesterday, would be that companies would find it easier to attract senior managers to the province.

Mr Nigel Smyth, the director of the Confederation of British Industry (Northern Ireland), said if the ceasefire proved to be permanent, "there will be a lot of business opportunities in the medium and long term".

He thought job growth through inward investment would quadruple, from about 500 per year to 2,000 over a two-to-three-year period, while an additional 10,000 jobs could be created in the tourist industry.

"On a per capita basis, tourist numbers here are presently a third of those in the republic and a quarter of those in Scotland," he said.

Mr Michael Smyth, an economist at the University of Ulster at Jordanstown, said the CBI figures erred on the conservative side. Tourism contributes 1.5 per cent to GDP in the province, compared with 7 per cent in the republic, so catching up with the south could create 20,000-30,000 tourism jobs in Northern Ireland. Unemployment is currently 98,000 – 13.1 per cent of the workforce.

Stena Sealink, one of the main ferry operators across the Irish Sea to Belfast and Larne, said interest in Ireland as a holiday destination had grown, "but interest is weighted very much towards the south because of the troubles in the north. Clearly, a permanent end to the violence would do no end of good."

Economy

The CBI said a climate of peace would allow manufacturing and service companies to focus their marketing on quality production. Mr Nigel Smyth said Northern Ireland businesses had one of the best records in Europe for quality awards, but that had been overshadowed by the province's image problem.

The downside of the peace will be the inevitable cuts in the security forces and security-related industries. Reductions in policing levels and the prison population, and eased security in shops, offices and factories will mean less overtime, job losses, and less money going into the economy – the loss could be as much as £300m to £400m per year.

The more pessimistic forecasts envisage job losses in the region of 20,000, a figure calculated by Dr Graham Gudgin of the Northern Ireland Economic Research Council. He said that over four to five years the province's economy "will be lucky to break even on jobs". Mr Smyth of UUJ said the number of job losses was more likely to be around 10,000 to 12,000, but he admitted there could be further indirect losses.

Mr Michael Smyth said the transition to a peacetime economy would have to be managed very carefully. The government would be "extremely foolish if it were to send any savings it made through an end to the violence straight back to the Treasury. Otherwise you could see a rise in unemployment rather than a fall."

The CBI says any security-related savings and exchequer benefits achieved through economic growth "should be redirected towards wealth creation and training".

The Department of Economic Development in Belfast acknowledged that there was a danger of short-term job losses. "But any change will not be a jolt but gradual, and will be balanced by new jobs over a period. The economic development budget is very substantial at £400m and is expected to remain that way."

It said the Treasury would decide whether additional resources through savings on security could be redirected towards economic development.

Mr Clem Parkes, chief executive of CV Carpets which is based in the north-east of the province, said: "It is always difficult to get managers and specialists that we cannot find here to relocate from Britain. That will become much easier. And our experience is that when we do get them here they don't want to leave."

Reuter

Republicans celebrate the start of the IRA ceasefire after midnight yesterday on the streets of west Belfast. Their banner tells British troops to 'Get out of my sight'

Media curbs

Sinn Féin voice ban may soon be lifted

By David Owen

There were growing signs at Westminster yesterday that the government could sanction an early lifting of the broadcasting ban on the voices of Sinn Féin representatives if it was convinced the IRA had ended violence for good.

As both leading opposition parties said they would welcome the lifting of restrictions, Mr Michael Mates, a former Northern Ireland minister, indicated that he too thought an ending of the ban would be helpful.

Mr Mates, Tory MP for Hampshire East, said he thought the move would be "high on the list" after the announcement of a permanent cessation of IRA violence.

The only reason the voices of Sinn Féin, the IRA's political wing, were banned from the airwaves was because they supported violence, Mr Mates said. "If there is no violence, that stricture goes away." Removing the ban was "a relatively simple thing the government could do relatively soon – but I think we will want one or two signs yet."

Sir Patrick Mayhew, the Northern Ireland secretary, is one of a number of cabinet ministers known to favour an end to the ban on the grounds that it has become counterproductive and tends to expose the government to criticism.

But there are fears that such a move, if not handled sensitively, could provoke anger among unionists and unionist sympathisers on the Tory back benches.

One prominent unionist supporter said yesterday that he did not think lifting the ban would provoke a strong reaction under the circumstances now prevailing.

But Mr David Trimble, the Ulster Unionist MP for Upper Bann, indicated that he did not think the time for lifting the ban had arrived.

Siege mentality takes a grip on Protestants

By William Lewis

Loyalists

Hoarding of goods had begun on the Shankill Road yesterday. Shops said that candles, gas lighters and basic foods were in demand all day as many Protestants made provision for a breakdown in law and order.

"The siege mentality is taking hold down here," one shopkeeper said. "I'm calling it the peace dividend."

Fear was evident yesterday in the Shankill Road and other working-class unionist strongholds – fear that the IRA ceasefire followed concessions made by the British government and fear that the IRA will not hand over its guns, enabling the violence to continue.

The talk along the Shankill yesterday was of a civil war in Ulster being "the obvious outcome" if the British government has traded in the unionist veto for the IRA ceasefire.

"People have reacted very badly," said Mr Bob Stoker, an Ulster Unionist party activist who lives near Sandy Row, another Protestant area.

"They have not taken it calmly at all. There has been a great run on food stores and people have sold out of gas cookers, candles and paraffin lamps," he said.

"People are prepared to wait and see for a short while but while they do so they are getting prepared," Mr Stoker said. "Ordinary people down here will not be put in a situation where they can be starved into defeat."

Tension in Protestant areas of inner-city Belfast was heightened following a raid by the Royal Ulster Constabulary on two houses last night. According to the Rev Eric Smyth, a councillor for the hardline Democratic Unionist party, the police smashed down the door of one house in spite of it being empty.

"Tempers are very high at the moment," he said. "The feeling is very bad." Mr Smyth said concerns developed after part of yesterday's Sinn Féin celebration procession involving more than 50 cars, taunted and threw sticks at children playing in a Protestant area near to the Catholic Falls Road.

Suspicion is also rife. The Rev Brian Moore, minister at the West Kirk Presbyterian church on the Shankill Road, talked of disaster if concessions had been made by the British government.

"If that does emerge then that's another ball game altogether," he said. "That would be a very serious situation which we would find very difficult to control."

"We have longed for peace. But I suppose there is a suspicion in the community that there may be a hidden agenda with the government and the IRA, that a deal has been done." Mr Moore said there was "disillusionment with our political representatives," but "hopes loyalist paramilitaries will assist the peace process".

Mr David Ervine, a leading member of the Progressive Unionist party, which is thought to have insight into the UVF, the loyalist paramilitary organisation, thinks that it will aid the peace process – but only when it is clear no deal has been done.

"If the government can assuage the fears of unionists I would expect an immediate response," he said. He believes this would involve a ceasefire announcement by the main loyalist terrorist groups. "If assurances are given the loyalist weapons will be laid down, and laid down quickly," Mr Ervine said.

Other unionists were willing to look on the bright side. Mr Michael McGimpsey, an Ulster Unionist party councillor in Belfast, believed assurances from the British government that no deals had been done.

Mr McGimpsey believed that the *cul de sac* argument may be the real reason the IRA called a ceasefire. "They may finally have realised that their tactics were not getting them anywhere," he said.

But he also warned: "If people believe the IRA have stopped because they have got something then we are in for very difficult time."

Bomb targets warned not to drop their guard

By Richard Lapper

Insurers

Insurers, hit by heavy claims from the IRA's mainland bombing campaign, yesterday welcomed this week's ceasefire but insisted that new arrangements for terrorism insurance and security precautions should remain in place.

Insurers have been hardest hit by the two IRA bombs in the City. Claims from the Baltic exchange bomb in April 1992 amounted to £300m, including about £100m for interruption to business. Claims from the Bishopsgate bomb, a year later, totalled £500m, with about £150m for business interruption.

Losses from other smaller bombs amount to less than £10m, said Mr Tony Baker, deputy director-general of the Association of British Insurers.

In Northern Ireland the government has paid more than £620m since the late 1960s to compensate property owners for damage. Losses rose to £50m in 1976-77 before falling steadily to £15m in 1986-87, but the bill in 1991-92 was £33m.

After the London bombs, insurers withdrew cover for terrorism from standard commercial policies. It is offered as a separate policy, with insurance companies covering their own exposures through Pool Re, a company owned by the insurance industry and backed by the government.

The decision by Pool Re to charge more to businesses in central London and other areas judged to be terrorist targets than those in less vulnerable areas caused considerable controversy.

Mr Baker said these problems had been overcome by insurers reducing some expensive premiums in return for the installation or adoption of security precautions. Mr Baker said changes were not likely for at least a year.

Mr Baker argued for the maintenance of security, such as the restrictions of traffic in the City, and said there had to be a degree of caution.

Peace is still not guaranteed

By Michael Cassell

Renewed threats of civil war made by Ulster's loyalist paramilitaries provide a grim reminder that an end to violence by the IRA gives no guarantee of peace in the province.

For, though the loyalists say they also want an end to 25 years of bloodshed, they believe that almost any deal on Ulster's future acceptable to republicans must undermine union interests.

Those interests, they warn, will be defended with a determination and military skill equal to anything shown by the IRA over the past 25 years.

Those claims may be exaggerated, but their ultimate potential to wage war will depend on the extent of support from a loyalist community feeling increasingly cornered.

The fear, particularly in working-class areas, is that unionists – whatever the assurances of Westminster – are close to being sold out.

The logic, in the minds of the loyalist paramilitaries, is that the IRA, with minimal support, has pushed its cause to the top of the political agenda using violence; if the strategy has worked for them then, the argument goes, it will work to protect the majority loyal to the Union.

Ministers and politicians on all sides will have to work hard to set minds at rest and convince the unionist community that, if the IRA reaches the negotiating table, it will do so on the basis of the Downing Street declaration alone and any agreement will fully safeguard the union's future.

Most unionists have no more time for the loyalist gunmen than they have for the IRA but that could change if, in the weeks ahead, the sands appear to be shifting under Ulster's position in the UK.

Most unionists have no more time for the loyalist gunmen than they have for the IRA, but that could change if the sands appear to be shifting under Ulster's position

Unionist politicians will play a critical role in determining the level of support a nervous community might offer extremists. None of them condone violence but, in recent months, there have been some attempts to rationalise paramilitaries' actions in the face of the "republican threat".

Paramilitaries

Loyalist extremists believe they are well-placed to exploit new uncertainties and old anxieties, and say they are able to launch a counter-offensive which will render unworkable any political accommodation with the republicans.

With loyalist action against the IRA and Sinn Féin cited as a reason behind the switch in republican strategy, renewed attempts to draw the IRA back into armed conflict can be expected.

The illegal Ulster Defence Association, the largest loyalist paramilitary organisation, which mounts attacks in the name of the Ulster Freedom Fighters, has traditionally portrayed itself as intent upon reacting only to IRA atrocities.

But since the start of this year, the UDA claims it has tried to preserve the union. Failing that, the organisation – which said it would ignore the ceasefire – wants to create an independent northern Ireland.

After the three-day IRA ceasefire earlier this year, the UDA warned it could extend activities to the Irish republic unless constitutional claims to the north were dropped. Even if they were, an end to UDA violence would depend on other elements of any deal.

But for some years the UDA has not attracted the same levels of support it enjoyed in the early 1970s. In 1974, it helped organise the workers' strike that ended power-sharing in the province; that sort of influence and authority has gone.

The Ulster Volunteer Force, also proscribed, has been responsible for some vicious sectarian murders. "The trouble is they just like killing Catholics," says one senior security officer.

The actions of loyalists have shown they have little to learn from the IRA. This year, they have been responsible for a murder-rate almost double that of the IRA.

The Catholic community is regarded as a legitimate target and the murderous campaign is designed not only to spread fear, but to demonstrate the loyalist capacity – in organisation and weaponry – to kill.

Security services do not underestimate that threat but say loyalist extremists are not generally as well-armed as the IRA, are more loosely organised and are more prone to infiltration. If the IRA remains dormant, the Royal Ulster Constabulary hopes to direct more resources to the loyalists.

The recognised danger is that politicians, in a search to embrace old enemies, could supply fresh ammunition to loyalist extremists.

As one Ulster politician recently remarked, it is no longer impossible to envisage them taking up arms against the very state to which they express unswerving allegiance.

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TECHNOLOGY

Advances in surgery mean many eye problems are now treatable, writes **Andrew Derrington**

A vision for the future

The idea of surgeons manipulating the shape of the eye to correct faulty vision would have been unthinkable to most people a few years ago. But today – with the help of laser incisions, special materials and new techniques – defective eyesight can be improved with a surgical precision that only the latest technology can provide.

For many, this means a visit to the optician for a new pair of spectacles or contact lenses will no longer be necessary, or not so often. Surgeons can break up the lenses of patients with poor vision and replace them with artificial ones. The profile of the cornea can be altered and tests are being carried out on injectable lenses made of gels.

One of the most common eye defects, especially in old people, is the cataract in which the lens becomes clouded. It is more common in old people and affects 80 per cent of over 80s in the UK, according to Arthur Steele, a surgeon at Moorfields Eye Hospital. The causes are unknown, but exposure to ultraviolet light and poor diet may be important.

To restore the vision of an eye with a cataract, the cloudy lens must be removed and may be replaced by a plastic implant. But early implants caused problems. The Perspex (PMMA) lenses were large and heavy. A long incision, weakening the eye and changing its shape as it heals, is needed to insert them and their weight makes them tend to move around. Cells tend to stick to the PMMA lenses, making the implant cloudy and the implant is rigid, so the eye cannot accommodate (focus) on near objects.

Yet all these problems, except the lack of accommodation, have been solved by advances in equipment and techniques. The first step towards reducing incision size was to break the lens up before extracting it. The problem was to hit the lens hard enough, without damaging anything else inside the eye. In the technique known as phacoemulsification, a vibrating ultrasonic probe breaks the lens up and removes it by suction.

The latest instruments remove the lens through a 1.5mm incision. The problem, however, is that the implant replacing the lens has to pass through the incision and be big enough to sit snugly in the lens capsule holding it in the correct position inside the eye. Extracting the old lens through a pinhole is no use if the incision has to be enlarged to insert a big implant.

The development of foldable lenses alleviates this problem. PMMA is rigid, but small lenses can be made with folding extensions (haptics). After insertion the haptics are unfolded to keep the lens in the centre of the capsule. These lenses can be inserted through a 5mm incision.

Even more advanced are lenses that can "remember" their unfolded shape, and resume it after insertion. Made of newer plastics, such as silicone or acrylic, they can be folded or rolled up and inserted through even smaller incisions. Lens insertions through incisions as small as 1.5 mm have been reported. But these techniques are experimental and need to be carefully evaluated. One potential problem is that silicone lenses may unfold violently and damage the eye.

New lens materials also have other advantages. Cells do not stick to them, so the lenses stay cleaner. Acrylic lenses can be made very thin, because the plastic has a high refractive index – it bends light sharply, allowing implants of very high optical quality to be designed.

However, even the latest implants cannot change focus. In the normal eye, the lens capsule is under tension and flattens the lens by squeezing it. The eye focuses on near objects by relaxing the capsule, allowing the lens to curve.

Researchers in several countries are searching for a substance that will form a lens that fills the capsule, corrects the focus of the eye and is elastic enough to permit accommodation, or close-up focusing.

Yet even without accommodation, vision with a rigid implant can be improved by a new technique. The profile of the cornea is measured before surgery and the size and shape of the surgical incision are then planned so that the eye heals with a corneal profile giving a precisely calculated degree of astigmatism (difference in focus for lines of different angles).

According to Julian Stevens, a London eye surgeon who uses a computer-controlled laser to make the incisions, the desired astigmatism leaves the cornea slightly more curved in the vertical direction than in the horizontal direction. The subjective effect is that clear vision is obtained except for the very closest work.

For patients with simpler vision problems surgeons can also modify the profile of the cornea, avoiding the need for spectacles or contact lenses. The profile must be made flatter to correct myopia (short sight) or more curved to correct hypermetropia (long sight).

One such method is radial keratotomy, in which a star-shaped incision flattens the cornea. The success of this technique is highly dependent on the surgeon's skill.

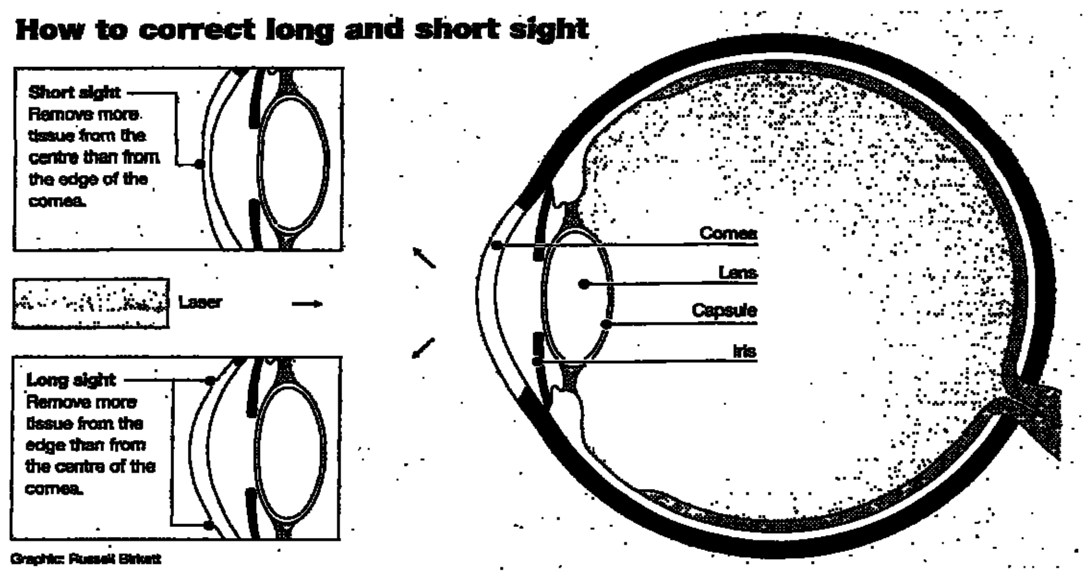
A newer, and rapidly evolving, technique – entirely driven by technological changes, many derived from military applications – is photorefractive keratectomy (PRK). A computer-controlled laser etches tissue from the corneal surface to change its shape. PRK is an area of extremely rapid development. Companies in the US, Europe, Japan and Russia are developing more flexible ways of controlling the lasers so that problems requiring different patterns of tissue removal can be treated. The change in profile is produced by varying the amount of tissue removed from different parts of the surface.

Long-sightedness can now be treated using a moving laser beam. The first results are available from a system which uses a moving slit, developed by Aeschulap-Meditech of Germany.

To correct hypermetropia with a scanning laser beam, the beam intensity or the number of pulses can be controlled to etch more tissue from the edge than from the centre, thus steepening the corneal curvature. The approach can be extended, modifying the shape, intensity and number of pulses to produce any desired change in the corneal profile. Thus astigmatism and irregularities in the corneal surface can be corrected.

With such rapid advances in eye technology, patients will one day find a visit to the eye-surgeon as routine and beneficial as a trip to the high street optician.

How to correct long and short sight



Graphic: Russell Birkett

Towards a cure for blindness

Work on a protein that stimulates blood vessel formation may lead to a drug to prevent blindness. The protein, vascular endothelial growth factor controls the laying down of blood vessels during normal development.

VEGF may also cause abnormal blood vessel proliferation in diabetic retinopathy, the commonest cause of blindness in the UK workforce. The abnormal blood vessels prevent light reaching the sensitive part of the eye and are fragile, often causing further damage by bleeding. The British Diabetic Association estimates this type of blindness affects between 7,000 and 14,000 people in the UK annually. With early detection, laser treatment is possible in 70 per cent of cases.

The hope of a drug treatment rests on three sets of results from researchers in Israel, Australia and the US. The Israeli team first identified VEGF and developed sensitive tests for it while working on ways of preventing the blood vessel formation (and hence growth) in human tumours.

They then showed, in collaboration with Jonathan Stone of Sydney University, that VEGF is the protein that regulates the formation of blood vessels in the developing rat retina.

The third piece of the jigsaw is that high levels of VEGF are found in the eyes of patients with proliferative diabetic retinopathy.

The next step is to develop a drug that inhibits the production of VEGF, and to test if it prevents the unwanted proliferation of blood vessels in the retina.

According to Stone: "Much is known about the gene and the protein and the possibility of specific inhibitors is real."

Worth Watching · Vanessa Houlder

A purer way with seawater

Few arid countries can justify the cost of using water purified through conventional desalination techniques for agriculture. Light Works, a London-based company sponsored by the EC, has addressed this problem by developing what it believes is a cost-effective system for producing crops and pure water in hot coastal regions.

Its prototype greenhouse, which has been built on Tenerife, uses surplus heat to evaporate sea water, which is purified by being passed through a heat exchanger cooled by cold sea water. It yields sufficient surplus water to water the crops within the greenhouse and irrigate the immediate surrounding area.

Light Works: UK, tel 071 249 3627; fax 071 254 0306

Locking out prying fingers

Valuable packages are usually locked to ensure they are not tampered with. Encrypta Electronics, a UK security company, together with Harcor Security Seals of Australia, have developed a padlock that includes an electronic sealing system.

The Nanolock generates a four-digit random number on a built-in liquid crystal display every time the lock is closed. It also displays the length of time since the padlock was closed, allowing the user to determine the precise time of an unauthorised entry.

Encrypta Electronic Seals: UK, tel 0633 265551; fax 0633 265667

PCs move into telephone sales

Power-dialling equipment is widely used by telephone salesforces to trawl through a database of numbers, logging successful calls and returning to numbers later if they are engaged. As a cheaper alternative to buying dedicated power-dialling equipment, Exepos Software Solutions, a UK software company, has launched a package called EasySpeak which allows personal computers to be used as power-diallers. The package, which runs on PCs using Windows software, costs £995.

Exepos: UK, tel 0628 533143; fax 0628 533145.

Improved method to weld copper

Copper's ability to resist corrosion has made it one of the front-runners in the search to find a suitable material in which to store nuclear waste under ground. The snag is that copper is difficult to weld because of its high thermal conductivity.

The Welding Institute, a Cambridge-based research group which is working on a prototype copper canister for the Swedish Nuclear Fuel & Waste Management Company, believes the solution lies with the use of reduced pressure electron beam welding. It uses a 100kW electron beam, which is sufficiently intense to penetrate the 50mm-thick copper canister. The steel-lined canisters produced by this process are expected to last more than 100,000 years.

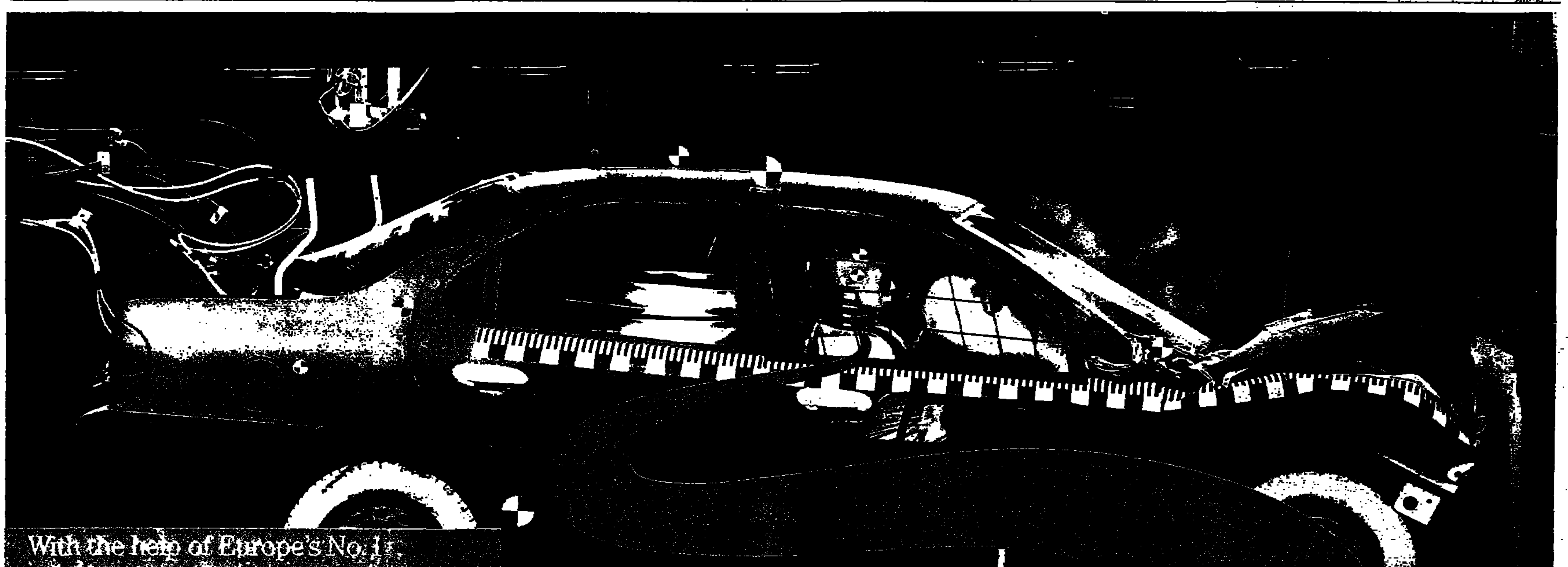
The Welding Institute: UK, tel 0223 891162; fax 0223 892588

Cancer cells under the microscope

Scientists working at the Massachussets Institute of Technology have discovered how two tumour-suppressor genes, called Rb and p53, co-operate to prevent cancer in mice, writes Andrew Derrington.

Their results, described in this week's issue of the journal Nature, throw light on the way the body controls the destruction of irreparably damaged cells. The Rb protein acts during the development of the eye in the embryo. It stops cells from dividing and causes them to differentiate into their adult forms. If it is absent, the product of the p53 gene prevents the cells from proliferating by inducing programmed cell death.

Tyler Jacks, MIT: US, tel 617 253 0262; fax 617 253 9863



The success of international companies is becoming increasingly dependent on information logistics. That's why more and more of these companies are taking advantage of Telekom information management systems.

One particularly good illustration of this is the Telekom contribution to the WAN (Wide Area Network) project at Ford Motor Co. This worldwide data network, which links all Ford national and international operations, was set up and running in the shortest possible time. Its objective: to create a cost-efficient communications system. One feature is its ability to transmit the results and data of computer-simulated crash tests to and from the company's research and development centres based in Cologne (Germany), Dunton (England), and Ford's supercomputer in Detroit (USA). Compared to real-life testing, this dramatically cuts down the time it takes to acquire vital design information.

To successfully complete this project, Telekom undertook all negotiations with the various international telecommunications authorities, created a special project team to investigate all project-related requirements and coordinated all the transmission channels to suit the customer's demands.

WAN is now an effective and competitive business tool in Ford operations. It has not only cut communications costs but has also significantly streamlined internal communications. Optimal, customer-specific solutions are a Telekom hallmark. These include one-stop shopping, single-end billing, network management and comprehensive consultancy services.

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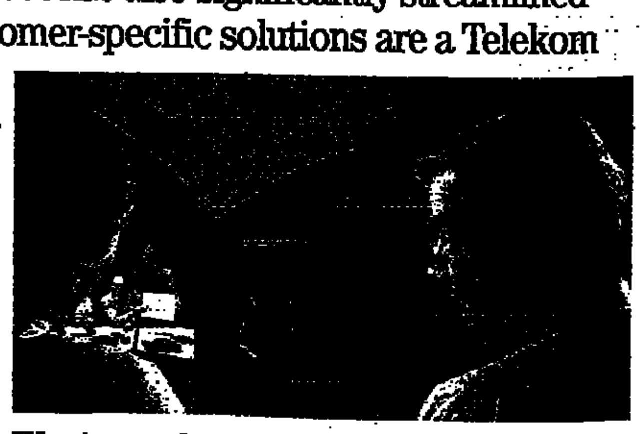

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MANAGEMENT

A question of motivation

Tim Dickson on how to keep up staff morale amid job losses

How do you manage a business whose 340 employees will mostly be made redundant in two years' time? That is the challenge facing Keith Greenough, chief executive of Mortgage Express, the TSB's centralised mortgage lending subsidiary.

A casualty of the deep recession in the UK housing market, North London-based Mortgage Express is winding down its "book" ahead of the transfer of its functions and remaining assets to TSB branches in 1996. At that point, all but a few will lose their jobs.

Greenough acknowledges that the health of the business is heavily influenced by macroeconomic factors – the six months to April, for example, saw a turnaround from losses of £15m to profits of £19m as the bad debt charge tumbled – but he insists that the efforts of staff can make a significant impact.

Employee involvement, training and better communication are on the Mortgage Express agenda, at least as much as they would be at any enlightened financial services company with a more secure future.

Morale was especially low when Greenough and his team arrived in 1991, amid rumours that the company was likely to be sold and following a decision to relocate the mortgage administration centre to Glasgow (subsequently reversed). "One of the first things we noticed was a lack of trust," explains Peter Taylor, director of human resources and quality.

An important part of the re-motivation strategy has been the development of two-way communication channels. Particular emphasis was placed on introducing a staff opinion survey that adequately reflected the needs of the company. Other companies (including TSB, Rank Xerox and Federal Express) were benchmarked and "metaplanning", a technique involving different groups of staff in confidential brainstorming sessions, was used. The fact that 78 per cent of employees responded to the subsequent questionnaire against a 60 per cent response rate to earlier polls conducted for the company by Mori, is an indication that the planning paid off. There are now about half a dozen cross-functional teams working on different issues, including finding a fairer system of staff appraisal.

Overall 71 per cent of employees said they were positive or very positive about the company, although 50 per cent do not or tend not to believe what management says, and more than 60 per cent disagree or tend to disagree with the statement that Mortgage Express management generally understands the problems they face in their jobs.

Staff development is one means by which Greenough and his fellow executives will be hoping to improve their rating this year.

Among the 36 employees being sponsored or part-sponsored for a professional qualification at the moment is Susie Every, a litigation supervisor who started as a temp in the collections department. Every has just completed an MA in Human Resource Management, having written her dissertation on the problems of downsizing at Mortgage Express. She is also developing a course on CVs/job applications which she hopes to run for colleagues if a pilot project proves successful.

More interesting work is another important source of motivation, say Mortgage Express executives. Taylor points out, for example, that 32 people have been moved to new positions in the company in the past year. "As the company gets smaller, the chance of someone moving into a supervisory/management role is greater than it would otherwise be," explains Anne McDougall, manager in risk and management accounts.

Financial incentives, however, do not appear to loom large at Mortgage Express.

According to Greenough: "what you pay people is a potential demotivator if you pay them a wage which is inconsistent with the market. This is a possible source of dissatisfaction. Paying people more money is unlikely in itself to create a higher level of performance. It is the way you treat them."

Be a better builder

David Sainsbury reviews a book expected to be this autumn's top business title in the US

The ideas of Gary Hamel and C.K. Prahalad are already well-known to regular readers of this page. Harvard Business Review subscribers are also familiar with them, from a series of brilliant articles, two of which, "Strategic Intent" and "The Core Competence of the Corporation", have won the annual McKinsey award for the review's best article.

Now they have used the material in those articles as the basis of an exciting and valuable book on how companies build up leadership positions in new industries.

It is a book they are well-equipped to write: Hamel is professor of strategic and international management at the London Business School and Prahalad is professor of business administration at the University of Michigan. They are experienced consultants, and the book draws heavily on the work they have done for companies such as Motorola, EDS, Philips and Whirlpool.

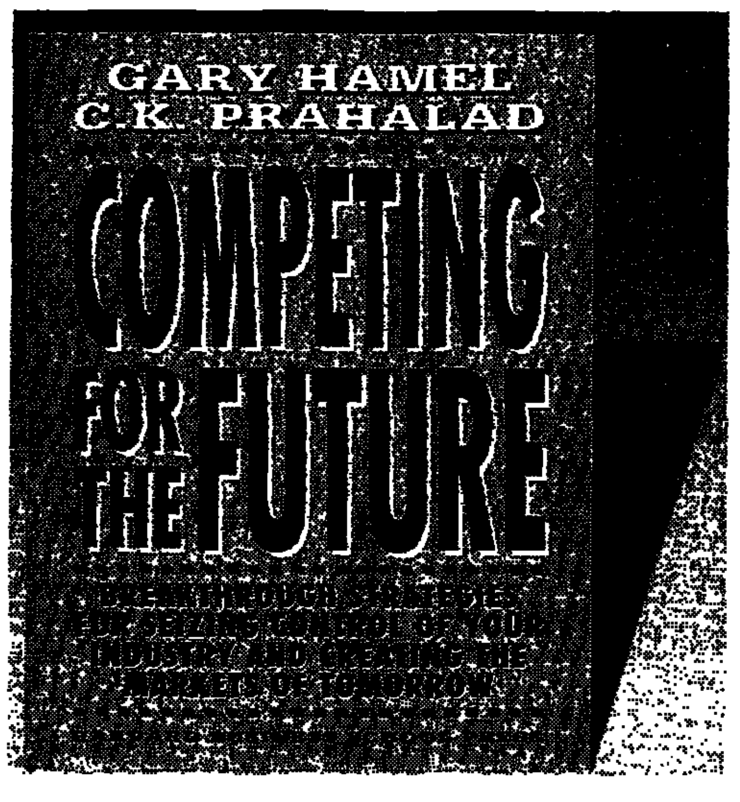
*Competing for the Future** is a book about corporate strategy, but it is not a book about corporate strategy as it is taught in most business schools and practised in most companies. The authors are not concerned with how to position the firm optimally within an existing industry structure, but with how companies create new industries.

They see this process as having three distinct but overlapping stages. The first of these is competition for industry foresight and intellectual leadership. This is competition to gain a deeper understanding of technological, demographic, regulatory or lifestyle trends and discontinuities that may transform industry boundaries and create new industries.

Second, there is the race to accumulate the necessary core competencies, to overcome technical hurdles, to attract coalition partners, to construct the necessary product or service delivery infrastructure and to get agreement around standards if necessary.

The third stage is competition for market position and market share. A big advantage accrues to the company that is the first to penetrate global markets, and the way to get there quicker is "expeditionary marketing". Market research provides a valuable way for refining existing product concepts, but it is not very helpful where new products are concerned. The way to learn faster than competitors is, therefore, to develop an effective system of product iteration.

This whole process of building a leadership position can take 15-20 years. For example, JVC, a subsidiary of Matsushita and the world leader in VCRs, began developing videotape competencies in the late 1950s and early 1960s, after Ampex,



a US company, had produced the first videotape recorder in 1959. But it was not until the late 1970s, nearly 20 years later, that JVC had a winning product with its VHS-standard machine.

In this process of building up a leadership position the authors assign a key role to the acquisition and deployment of core competencies. They define a core competence as a bundle of distinct and defensible skills and technologies that enables a company to provide a particular benefit to customers. At Sony, for example, the benefit is "pocketability" and the core competence is miniaturisation. The possession of these competencies enables companies to move into new product areas. Also, because they represent cumulative learning rather than great leaps of inventiveness, it is difficult for competitors to "time compress" competence building and catch up.

The authors also attach a great deal of weight to the motivation and ambitions of companies, and they argue that starting resource positions are a poor predictor of future industry leadership. While a traditional view of strategy focuses on the "fit" between existing resources and emerging opportunities, the companies which build up leadership positions are those that have a "strategic intent" that creates, by design, a substantial "misfit" between resources and aspirations. Strategy is about stretch as well as about fit.

When British Airways proclaimed just after its privatisation in early 1987 that it wanted to become "the world's favourite airline" many people would have said this was not a realistic ambition. But by 1992, Business Traveller magazine was rating BA as the best transatlantic airline, and number two worldwide only to Singapore Airlines.

This book is a useful antidote to much current management thinking. As the authors say, it is a book for those who are "more inclined to build than cut". They believe that the US and Britain have produced an entire generation of managers concerned only with downsizing, delayering and divesting, and that the time has come to put more emphasis on creating the markets of the future. Otherwise managers will find themselves on a treadmill trying to keep one step ahead of the steadily declining margins and profits of yesterday's businesses.

The ideas put forward in this book are stimulating and original and many of them are already being used by successful companies. But they need to be handled carefully by businessmen and women seeking to apply them.

While companies should be ambitious, the book at times become too inspirational. If one's "strategic intent" is strong enough and one is imaginative enough, then there is apparently nothing to stop one becoming the leader of one's industry. Any small business can become a Honda or a Sony. But for many companies more modest ambitions may be more appropriate. They may be limited by the talent and skills of their management team.

Second, while the authors have sought to show how their ideas can apply to all industries, they are undoubtedly at their best when discussing world-class electronics and IT companies, where most of their consulting has been done. I have no doubt that their ideas can be applied more widely, but they will need to be modified. The chief executive of a medium-sized engineering company will find a lot here that is useful and interesting, but he will need to adapt the concepts carefully to the circumstances of his own company and industry.

I predict that this book will be a big success, and that many businessmen will gain competitive advantage from reading it. It provides a more coherent view of strategy than Kenichi Ohmae's *The Mind of the Strategist*, is more original and stimulating than *In Search of Excellence*, and is certainly more enjoyable to read than Michael Porter's volumes on *Competitive Strategy* and *Competitive Advantage*.

**Harvard Business School Press. $24.95 US; £21.95 UK.*

The author is chairman and chief executive of J Sainsbury, Britain's biggest supermarket chain.

Sharing the blame

When a company performs badly, shareholders usually blame the chief executive and other senior executives. The criticism is rarely directed towards the board of directors.

Boards have been "unique among institutions in their insulation from performance review and enforceable mandates to change their procedures or membership," says a study* by the Conference Board, a business membership organisation that researches business policy and practice.

Yet there are signs that this state of affairs is changing. The Conference Board study reports "a growing recognition" that boards have a responsibility to review and improve the effectiveness of their operations.

There has been an increasing demand for director accountability following poor company results and the publication of the Cadbury report in the UK, which attempted to define standards for corporate governance.

Those companies which have introduced director appraisal systems tend to stress the importance of contributions to discussions, says the report. Other issues that tend to be highlighted include analytical ability, assertiveness and skill at communicating.

But formal procedures to evaluate board performance are still rare.

The assessment of directors is handicapped because boards are "a community of peers" whose role has not traditionally involved criticising their collective or individual effectiveness. As a result, devising an assessment process that commands general respect is paramount. "Because the exercise lacks any compliance or enforcement authority, it derives its legitimacy from the integrity of the process itself," says the report.

**Corporate Boards: improving and evaluating performance. Price $100. Available from The Conference Board, 845 Third Avenue, New York, NY 10022-6601.*

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■ For further details please contact Andrew Pearce, Ernst & Young, PO Box 1, 3 Colmore Row, Birmingham B3 2DB. Tel: 021-626 6262. Fax: 021-626 6305.
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• Estimated annual turnover of KShs 258 million (£3.0 million);
• 29 acre leasehold plot with unexpired term of 95 years.
For further details and sale particulars please contact Keith Sinclair or Pratul Shah, Joint Receiver & Manager, Coopers & Lybrand, P O Box 30158, Queensway House, Kaunda Street, Nairobi. Telephone (254-2) 339308, Fax: (254-2) 218555, Telex: 22574.

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The business and assets of the following companies in the Dennis Hickman Group are for sale as a consequence of receivership.
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Saytec Limited
• Designs and manufactures electrical control panels with an approximate annual turnover of £2.4m
• Based in freehold premises in Willenhall, Wolverhampton
• Current contracts may be available for novation.
Automate Limited
• Supplies and installs computer control systems for the ready mixed concrete and asphalt industries
• Approximate annual turnover £600,000
• Based in leasehold premises near Bristol.
C&M Electrical (Engineers and Contractors) Limited
• Specialises in general commercial and electrical contracting
• Approximate annual turnover £500,000
• Based in leasehold premises in Middlesbrough
• Current contracts may be available for novation.
For further information contact the joint administrative receiver: PE Baldwin, Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham B3 2 DT. Telephone: 021 200 3000. Facsimile: 021 200 2464.
Price Waterhouse
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Coopers & Lybrand
Galloway Cheese Company Limited
The Joint Receivers, Frank Blin and Ian Rankin of Coopers & Lybrand, Glasgow, offer for sale the business and assets of this established cheese manufacturer in South West Scotland.
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• fully automated 'state of the art' facility, refurbished in 1990 at a cost of £12 million
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For further details and on appointment to view, please contact Ian Rankin or Jim Kilcullen at Coopers & Lybrand, Kintyre House, 209 West George Street, Glasgow G2 2LW. Telephone: (041) 248 2644. Fax: (041) 226 5133.

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LEGAL NOTICES

IN THE MATTER OF [illegible] LIMITED
[illegible]

UTILITY CABLE PLC
On 26th August 1994 there was registered with Registrar of Companies for Scotland an Order of the Court of Session dated 25th August 1994 in the petition of Utility Cable plc whose registered office is at 19 Ainslie Place, Edinburgh ("the company") confirming the reduction of share premium account resolved on by Special Resolution of the company dated 14th July 1994. An undertaking by the company referred to in the Order was registered at the same time.
Dundas & Wilson, CS, Solicitors for Utility Cable plc, Saltire Court, Edinburgh

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FINANCIAL TIMES

PROPERTY

Deceptive appearances

Louise Lucas on apparent anomalies in Hong Kong's market

Hong Kong's property market would appear to be full of anomalies. In the past three years, strong demand from multinationals, eager to secure a footing in the British colony as a bridgehead to the lucrative China market, has sent property prices spiralling 200 per cent.

Yet only last month property developers watched with incredulity as a plot of land was withdrawn from government auction after it failed to attract bids. Two other sites were snapped up at the opening bids, creating the quietest auction many Hong Kong analysts could recall. The last time the government withdrew a plot was in 1984.

At the same time, some 10 floors of the Lippo Centre, a gleaming twin tower block formerly owned by Australian entrepreneur Alan Bond, are lying empty, says property consultants Brooke Hillier Parker. In the six months to end-August rents for central office space rose 18.8 per cent to an average HK$93.40 per square foot.

In any other market these examples would reasonably be interpreted as signs of an ailing market. But not, it seems, in Hong Kong. The empty offices in the Lippo Building present a welcome dilemma for the owners (a mix of local Hong Kong Chinese and mainland Chinese): whether to lease at yields of 10 per cent, or to sell for a book profit of at least HK$5,000 a sq ft. The offices would sell for between HK$13,000 and HK$18,000 per sq ft.

The disappointing auction, which saw Citic Pacific, a Beijing-controlled diversified conglomerate, walk off with two bargain sites after making the only bids of the day, may primarily have been a reflection of developers' anger over an Independent Commission Against Corruption investigation into alleged corrupt practices at an auction on May 26; poorer quality sites and a mood of caution also contributed to the disappointing response.

Mr Peter Churchouse, managing director of Morgan Stanley Asia, said: "I am fairly convinced this [the auction] is not reflective of the property market in Hong Kong, or of where the market is heading.

"That auction was not about the property market. It was about the bad blood between the developers and the government. Citic got a steal. This is about making points. It's about power."

His assertion – denied by developers, who instead grumbled that the opening bids had been set too high – stems also from the tension between developers and the government since March, when Mr Chris Patten, governor, announced his intention to cool the overheating property market.

Since then, according to the government, property prices have fallen by 10-30 per cent. The slump was sufficient to prompt the government – just two days after the previous month's embarrassing auction – to call a halt on any further talk of intervention in the market.

The price fall, says the government, was the result of measures announced in June, in particular the clampdown on the re-sale of pre-sale flats before completion. At the same time local interest rates rose in response to a hike in US levels while banks tightened mortgage lending restrictions.

The Hong Kong market, say analysts, defies the conventional definition of a market. Indeed Mr Archie Hart, head of research at broker Crosby Securities, says the colony's market does not strictly deserve the name of market, as demand is artificially constrained by the banks, which cap loans, and supply is limited by the government, which sells off limited parcels throughout the year.

"At the moment it looks like this situation will continue. There is no avalanche of new supply coming on stream and equally the banks are saying the 70 per cent [loan to value] limit [for mortgages] could become a way of life rather than a temporary thing."

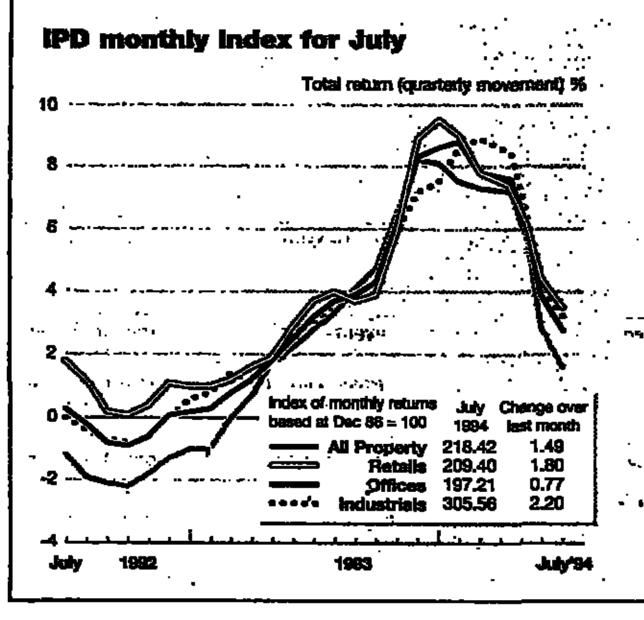
Government intervention could, too, remain a feature of the market in the short-term, as indicated by the ICAC investigation into the ways auctions are conducted – a probe prompted by the controversial May 26 auction.

The taskforce carrying out the review recently returned from a fact-finding mission to Singapore, from where the idea of a tender system is likely to be imported. Under this system, where developers are obliged to provide infrastructure – road links or sewage – they would tender rather than bid at auction for land plots.

While the mood of caution provoked by the June measures is likely to continue, anecdotal evidence suggests activity is returning to the market.

The number of new loans approved but not yet taken up increased in July, while residential property transactions rose by between 10 per cent and 15 per cent last month. This evidence of activity suggests the recent low prices achieved at auctions were aberrations – or political posturing – rather than the signal for a toppling market.

IPD monthly index for July



Retail and industrial property rates of return fell in July with total all-property returns declining by 0.2 percentage points to 0.7 per cent for the month, according to Investment Property Databank, a research group.

Capital values managed only a marginal increase over the month while total rental values fell by 0.2 per cent.

This was disappointing following the recent stabilization in rental values.

However, the long-term slide in rental values has slowed.

Rental values of all types of property during the 12 months to end-July have fallen by 3.5 per cent says IPD.

The year-on-year total return on all properties fell from 26.1 per cent to 25.4 per cent between June and July. Retail remained the best performing sector with total returns of 0.9 per cent in spite of a half-point fall in July.

Industrials were in second place with a return of 0.7 per cent down from 1 per cent in June.

Offices, in spite of improving from 0.3 per cent to 0.4 per cent, remained in third place in terms of total returns.

IPD said that net investment was the only indicator which remained buoyant having been positive across all three sectors for nearly a year and rising to £94m in July, close to the peak levels achieved in February and May this year.

PEOPLE

Simpson seizes reins at Lucas

George Simpson, chief executive of Lucas Industries since April, has seized the reins at the Midlands-based automotive and aerospace components group.

The former Rover chairman has abolished Lucas's previous group executive structure. Six business managing directors will now report directly to Simpson, below, as will the four executives in charge of finance, human resources, communications and strategic planning.

Jack Fryer takes the new position of director of strategic planning. Fryer, 55, was formerly managing director of Lucas Automotive, responsible for power train systems. He joined Lucas in 1986 from Rank Xerox.

A Frenchman, Jean-Francois Cayot, 56, succeeds Fryer as managing director of Lucas Diesel Systems. He joined Lucas in 1985 and is currently responsible for the group's car and commercial vehicle diesel operations, based in Blois, France.

Frank Turner remains managing director of Lucas Aerospace. Ken Maciver, managing director of Braking Systems, will concentrate on developing Lucas' braking interests. John Anthony assumes sole responsibility for Lucas Aftermarket Operations. John Plant, Lucas Electrical Systems, now reports directly to Simpson. John Parnaby becomes managing director of Lucas Electronic Systems Products, responsible for the remaining applied technology businesses.

Powell Duffryn organises its top management succession

The top management succession at Powell Duffryn, one of the few British companies to defeat an unwelcome takeover bid from Hanson, seems to have been sorted out with the appointment of Barry Hartiss, 44, as deputy group chief executive.

Hartiss, who joined the group following the 1985 acquisition of UK Petroleum Products, has been responsible for rationalising the group's low margin fuel distribution business and has been heavily involved in Powell Duffryn's move into port operations.

The firm is a major shareholder in Tees and Hartlepool port and is bidding for British Coal's South Wales operations.

Hartiss was one of two internal candidates who appeared to be in the running to take over from Andrew Roberts, 59, who retires as chief executive next July.

Last September, Michael Noakes, 48, an ex-BTR executive and former chief executive of Boustead, joined the board and there had been speculation that he was being groomed for the top job. However, Noakes will take charge of the group's principal engineering subsidiaries when Freddie Bircher, 62, retires later this year.

The intention is that Hartiss will succeed Andrews who, along with Powell Duffryn's chairman David Hubbard has been responsible for refocussing the group after the unwelcome bid from Hanson.

Hubbard, a year younger than Andrews, is expected to stay on as chairman until 1997, eventually handing over to VSEL's chief executive Noel Davies, 60, who has been appointed deputy chairman.

The appointment of Davies, who comes from an engineering background, is designed to balance the promotion of Hartiss who has come up through the fuel distribution side.

Amec, the engineering and construction group which has been struggling to recover from the recession, has replaced Dennis Clark, 46, head of its process and energy business, accounting for around a third of Amec's £2.1bn turnover.

Clark is an oil and gas man who took over as managing director of Press, the offshore engineering operation, after most of its top management team defected to a rival firm ten years ago. He joined the Amec board in May 1990 and has been responsible for running one of the more resilient parts of Amec's business.

Clark's departure has surprised some analysts. Amec, which publishes its interim figures next week, stressed that there was nothing ominous about his exit. Sources close to the company said it derived from differences in management style rather than poor financial performance. It is understood that Amec feels that it has not been as successful in the international market as it should have been. Ex-Wimpey executive George Payne, 46, who has been Amec's commercial director since 1993, has taken over as chairman of Amec's process and energy sector.

Cook follows Gray's footsteps

JP Morgan has found someone to fill the shoes vacated by Robert Gray, one of the best-known figures in the international capital markets business, who left the firm in April to go to HSBC Holdings.

Gray's old reponsibilities as joint head of European capital markets will be taken on by another Englishman, Joseph Cook, who returns to London after a six-year stint at Morgan's New York office.

Cook went to the Big Apple in 1988, the year Morgan got permission to underwrite US domestic bonds, to set up the US syndicate desk. He then ran the North American capital markets operation.

Cook is no stranger to the London eurobond scene. Before joining Morgan in 1985, he was part of the so-called 'Orion mafia', having spent 14 years at Orion Royal Bank, then a key player in the eurobond market. He should also be familiar with Gray's shoes; he stepped into a previous pair nine years ago, when he took over from Gray as head of Morgan's fixed-income syndicate desk.

■ Graham Allen, formerly investment director, is appointed chairman and md of ICI Investment Management. Vice-chairman of the Investment Committee of the National Association of Pension Funds, Allen succeeds the late Tom Heyes.

Whiddett joins Threadneedle Investment Management

Paul Manduca, who has been running Threadneedle Investment Management since the end of May, has brought in a smaller companies specialist from Hill Samuel Investment Management to improve the performance of a sector which he has identified as in need of attention.

John Whiddett, 44, has spent the last decade at Hill Samuel, latterly managing equity portfolios for UK life companies. He had been keen to return to smaller companies.

In the early 1980s, Manduca had also had a spell at the merchant bank, specialising in smaller companies. Whiddett knows Threadneedle's investment director in charge of UK equities – Howard Maguire – even better, as Maguire had moved from an equivalent position at Hill Samuel just three years ago.

Threadneedle has around £30bn under management, comprising the funds of both Allied Dunbar and Eagle Star insurance companies. Whiddett acknowledged that he was "slightly apprehensive" as to how the newly formed Threadneedle – attempting to blend two such different cultures – would work out, but added he had "great confidence" in Manduca.

Manduca says inadequate expertise on the smaller companies side meant that neither Allied Dunbar or Eagle Star had adequately captured the "big recovery bounce" in the sector last year. He hopes Whiddett's arrival will increase the funds allocated to this sector to £500m or more.

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LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
No. 004658 of 1994

IN THE MATTER OF
UNUM LIMITED
-and-
IN THE MATTER OF
WINDSOR LIFE ASSURANCE COMPANY LIMITED
-and-
IN THE MATTER OF
THE INSURANCE COMPANIES ACT 1982

NOTICE IS HEREBY GIVEN that a Petition was on the 27th June 1994 presented to Her Majesty's High Court of Justice in England by UNUM LIMITED ("UNUM") for:

(1) an Order under Section 49 of the Insurance Companies Act 1982 ("the Act") sanctioning a Scheme providing for the transfer to UNUM of part of the long-term insurance business carried on by Windsor Life Assurance Company Limited ("Windsor"); and

(2) an Order making ancillary provision in connection with the implementation of the Scheme under Section 50 of the Act.

Copies of the Petition, the Scheme, and a Report and a Supplemental Report by an Independent Actuary as required by Section 49 of the Act may be inspected at the registered offices of Windsor at Windsor House, Telford Centre, Telford, Shropshire TF3 4NB; of UNUM at Milton Court, Dorking, Surrey RH4 3LZ; and at the office of UNUM at Swan House, 37/39 High Holborn, London, WC1V 6AA during usual business hours for a period of 21 days from the publication of this notice.

The Petition is directed to be heard before Mr. Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the fifth day of October 1994 and any person, including any employee of Windsor or UNUM who claims to be adversely affected by the Scheme, may appear at the time of hearing in person or by Counsel. Any person who intends so to appear, and any policyholder of Windsor or UNUM who dissents from the Scheme but does not intend so to appear, should give not less than two clear days' prior notice in writing of such intention or dissent, and the reasons therefore, to the solicitors named below.

Copies of the documents specified above will be furnished by such solicitors to any person requiring them prior to the making of an Order sanctioning the Scheme on payment of the prescribed charge therefore.

DATED this 2nd day of September 1994

Lovell White Durrant
65 Holborn Viaduct
London EC1A 2DY
Ref: A3/KWC/JTY
Solicitors for UNUM

COMPANY NOTICES

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1. The above-named Company has approved a payment out of capital for the purposes of acquiring its own shares by purchase.
2. The amount of the permissible capital payment for the shares in question is £30,000,000 and the resolution approving such payment out of capital was passed on 30 August 1994.
3. The Statutory Declaration of the Directors and the auditors' report required by Section 173 of the said Act are available for inspection at the Company's registered office at IMI House, 8 Laurence Pountney Hill, London EC4R 0BE.
4. Any creditor of the Company may at any time within five weeks immediately following 30 August 1994 apply to the High Court under Section 176 of the said Act, for an order prohibiting the payment.

Dated: 30 August 1994
Mario Cotto,
Chairman

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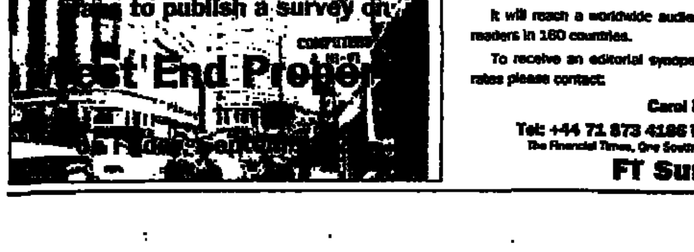

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THE NUCLEAR INDUSTRY - INTO THE 21ST CENTURY?
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RETAILING TOWARDS 2000 - COMBINING VISION AND EFFICIENCY
London, 21 & 22 September 1994
This year's meeting will focus on the need for the retail industry to exploit fully the opportunities that new markets and new technologies offer, while dealing with the fundamental business challenges - controlling costs; managing the property portfolio and 'crime busting'. Winning retail formats will be those that successfully combine vision with efficiency. Speakers at the conference, arranged jointly with Coopers & Lybrand, include: Teh Ben Lian, Emporium Holdings (Singapore) Ltd; George Beeton, Edgars Stores Limited; Zoltan Koszegi, Azur Unic; Mark Lilly, The Disney Store Limited; Michael Ruddell, The Boots Company; Robert Miller, Galleria 21 (UK) Ltd; David Carmen, Quantum International and Ian Smith, Matalan.

INTERNATIONAL BANKING
Madrid, 29 & 30 September 1994
This major forum, immediately prior to the annual meetings of the IMF and the World Bank, will debate the outlook for banking in the mid-1990s and address a wide range of issues of current concern to the international financial community. Speakers taking part include: Emilio Botín, Banco Santander; Lord Alexander of Weedon QC, National Westminster Bank plc; Dr H Onno Ruding, Citicorp; Richard J Boyle, Chase Manhattan Bank NA; Dr Josef Ackermann, Credit Suisse; Egidio Giuseppe Bruno, Credito Italiano and Eugene J Ludwig, Comptroller of the Currency, USA.

INTERNATIONAL INFRASTRUCTURE FINANCE BUILD-OPERATE-TRANSFER [BOT]
London, 4 & 5 October 1994
This major Financial Times conference will focus on build-operate-transfer [BOT] opportunities in key growth markets, to include Eastern Europe, South Africa and the Middle East. The challenge of financing and managing BOT contracts will be highlighted in recent case studies of major projects in the power, telecommunications and environmental infrastructure sectors. Speakers include: Mr Trevor Manuel, Minister of Trade and Industry, South Africa, Sir Alistair Morton, Eurotunnel, Thierry Baudon, EBRD, Dr Jacques Rogozinski, Banobras, Inder Sud, The World Bank, John Hollihan III, Morgan Stanley & Co Limited, Michael Heath, Nynex Network Systems Company, George Kappaz, KMR Power Corporation, Mr Christopher Nash, Northwest Water International Ltd, Mr Malcolm Stephens CB, The Berne Union.

INDIA'S ECONOMIC RENAISSANCE
Delhi, 26 & 27 October 1994
Given the breadth and pace of economic reform in India since 1991, this high-level FT forum will provide a unique opportunity to review the government's liberalisation programme and assess business and investment prospects. The meeting will also consider India's competitiveness in world markets and look at the challenges of improving the country's infrastructure.

DOING BUSINESS WITH HUNGARY
Budapest, 14 & 15 November 1994
With a new Government recently elected to office, this major FT conference will provide a timely opportunity for a re-appraisal of Hungary's attractiveness as a location for foreign direct, and increasingly, portfolio investment. Speakers include: Mr Peter Bod, President, National Bank of Hungary, Mr Ferenc Bartha, State Property Agency, Professor Janos Martonyi, Former State Secretary, Ministry of Foreign Affairs, Mr Lajos Bokros, Budapest Bank Rt and Budapest Stock Exchange Council, Mr Lajos Csepi, State Holdings Company AV Rt, Mr Gyorgy Suranyi, Managing Director, Central European International Bank, Dr Mark von Lillienskiold, MATAV, Mr Istvan Orban, EGIS Pharmaceuticals Ltd

DOING BUSINESS WITH SPAIN
Madrid, 23 & 24 November 1994
The FT's '94 conference, to be arranged with Expansión and Actualidad Económica, will take as its theme 'Spain Competing in Europe', focusing on economic recovery, competitivity and liberalising markets. Speakers include: D. José Antonio Griñán Martínez, Minister of Labour & Social Security, Spain; D. Alberto Recarte, Vice President & Managing Director, Centunion; D. Carlos Espinosa de los Monteros, Chairman & Chief Executive, Mercedes Benz España, SA; D. Oscar Fanjul Martín, Chairman, Repsol SA; D. Luis Atienza Serna, Minister of Agriculture, Fisheries & Food, Spain; Mr Bernard Dumon, Chairman, Saint-Louis Group SA; D. José Miguel Zaldo, Chairman & President, Grupo Tavex.

All enquiries should be addressed to: Financial Times Conferences, P O Box 3651, London SW12 8PH, UK. Telephone: 081-673 9000, Fax: 081-673 1335.

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ARTS

'Oh What a Lovely War' revived

There must a distinction between those who remember the original, explosive production of Joan Littlewood's *Oh What a Lovely War* at Stratford East just over 30 years ago and those seeing the piece for the first time in the revival by the National Youth Theatre. By comparison, the NYT performance understandably lacks fire-power.

Yet there are compensations and even the odd improvement. One of the opening songs, "We don't want to lose you, but we think you ought to go", is immensely moving precisely because it is played by such young people.

The build-up of the songs is a reminder of what a musical masterpiece Ms Littlewood produced. They go from confidence to doubt to near despair. In "A long way to Tipperary" there seems to be a new emphasis in the line "but we're not downhearted yet". In "Pack up your troubles in your old kit bag", they are still trying to force a smile. It's a long from 1914 to "I want to go home, Oh my. I don't want to die".

The dialogue scenes are generally less confident. The NYT cast cannot really pull off the generals and their ladies and perhaps the original text was not as strong as we recall. The exception remains Christmas Eve when the Tommies hear the Jerries singing "Heilige Nacht" from across the trenches: they talk, fraternise, play football in no-man's land before the shelling resumes. This is as moving as ever.

Direction is by Dean Byfield and the show is sponsored by Price Waterhouse. It runs at the Bloomsbury Theatre, London WC1 (071-388-8822) until September 10.

Malcolm Rutherford

Cast of the National Youth Theatre: the build-up of songs is a reminder of what a musical masterpiece Joan Littlewood produced Alastair Muir

Sponsorship

Record for Edinburgh

Arts sponsorship was late into the recession, but seems to be coming out of it quite smartly – at least in Edinburgh. The 1994 festival, which closes tomorrow, attracted 15 per cent more corporate support than last year, with a record total of £1m. The money is vital – it accounts for 20 per cent of festival revenue. Only half the aid goes in straightforward arts sponsorship. The remainder is donations from trusts and individuals and from the corporate membership scheme, where companies are tempted to form a festival connection for as little as £2,500. Edinburgh hopes to sign up more London-based companies. Whitbread and Bats are recent additions.

The increase in sponsorship owes something to renewed business confidence and more to the fact that the festival is enjoying an artistic revival under director Brian MacMaster. This does not mean that his ambitious presentations, like a seven and a half hour *Oresteia* in Russian, are enthusiastically embraced by sponsors – this year's challenging foreign drama productions failed to get backers. But they did receive a good critical response and this raised the prestige of Edinburgh.

Predictably, sponsors at the festival are motivated mainly by the corporate hospitality opportunities – IBM flew in 300 top executives from Europe for its sponsored concert of Beethoven's Ninth Symphony – but the festival's development director, John Godfrey, is trying hard to broaden their horizons. He made some progress this year when one longterm sponsor, the Royal Bank of Scotland, added advertising of its connection and competitions for tickets, to his traditional format. Another leading sponsor, Hertz, which sponsored Miami City Ballet, invested some of its money in an educational project, with dancers visiting local schools.

The Royal Bank of Scotland was quick to exploit the festival's newest attraction, the Festival Theatre, and put £60,000 behind the opening production there, Beethoven's *Fidelio*. In contrast, events at the other main festival venue, the Usher Hall, commanded a sponsorship tag of £30,000. The festival, like every other arts organisation these days, is open to offers on the size of a sponsor's commitment.

This flexibility brings in the newer, more experimental companies, like Beck's Beer, which was willing to put some money behind one of the most elitist festival events, the Canadian director Robert Lepage's new work, *The Seven Streams of the River Ota*. Even so the festival still relies on local banks, utilities and breweries for most of its sponsorship income.

Like other arts organisations, the Edinburgh Festival is alive to the opportunities in payment in kind. But Godfrey is not soft-headed – there is no airline tie-in this year because he was not prepared to give £30,000 worth of sponsorship privileges to an airline in return for the equivalent in full price tickets. It is better to do a deal elsewhere – with InterCity, for example – and buy air tickets for artists when needed from discount sources.

Hertz gives some of its support in kind as well as cash, and in return for inclusion in the Corporate Membership Scheme Strathmore Spring Water is supplying 8,000 litres of the stuff. Famous Grouse ensures that every performer at the festival receives a bottle of whisky.

Godfrey is adept at persuading major arts supporters to at least do something in Edinburgh. British Gas is currently re-examining its sponsorship programme but has agreed to pay for the video that will promote sponsorship of next year's festival, when the target is £1.2m.

The habit of using festival events to entertain means that most companies double their expenditure by the end of the day, when the costs of parties, accommodation etc, are added in. Godfrey hopes that the example of Beck's will persuade sponsors to go for more avant-garde happenings in 1995 and that the lead from the Royal Bank of Scotland will encourage them to exploit the link more imaginatively. But one thing stays inviolate – Brian MacMaster plans his festivals with sponsors firmly out of mind. Only when the programme is fixed are they invited to pick it over.

Antony Thorncroft

The Edinburgh Festival: **Lynn MacRitchie** on the Obala group from Sarajevo; and **Alastair Macaulay** on the Fringe and theatre

Art among the ruins

This has been a good festival for the Demarco European Art Foundation, housed for the moment in the former St Marys School. The building is overflowing with activity in every corner. So far, one show, *Mirjam* by Mariela Stefanski, has won a Fringe First award, Damien Hirst's rats have grabbed lots of welcome headlines, and *Romeo and Juliet* by the Estonian Youth Theatre is proving a festival favourite. But perhaps the most notable achievement is the appearance of the group of artists from the Obala Gallery in Sarajevo which has finally managed to bring its exhibition *Witnesses of Existence* to the festival.

Invited by Richard Demarco last year, the group was unable to get permits to leave the city. This year, with the help of a sympathetic officer, the artists have been able to get out on UN flights and have taken the show to New York and Switzerland before arriving in Edinburgh.

Demarco's interest in eastern Europe is no new phenomenon. The idea for the present show was born when Demarco took a group of Scottish artists to Sarajevo in February 1988. He says, "I believe we must listen to all the languages of Europe... Here we bridge the gap between the world of art and the world of reality... around the heart of Europe which is bleeding. Our life as artists is about confronting the issue of the creation of gaps, failing to make contact."

The visiting Sarajevan artists agree with this sentiment, but their position is difficult. After discussion, it was agreed that it would be in everyone's best interests if two Serbian theatre companies originally scheduled to appear at the Foundation staged their performances elsewhere, and a new venue was found. "Being anti-war is not enough," the exhibition co-ordinator Izeta Gradevic told me. "You have to be against the camps, ethnic cleansing, everything. Our group is completely mixed, we are a Bosnian group. But art is not divided from politics."

Demarco believes that education is the vital factor in making art the force for good in our lives, and hopes that the Foundation can remain permanently at the school as a sort of international interdisciplinary university.

"Most people are so simple, their lives are about absurdities, and that is our problem - it is a question of education, of giving people more than they have been given. When we understand that culture and education are two sides of the same coin, we will not have a Ministry of Culture and a Ministry of Education, we will have civilisation."

The experience of the Obala Gallery artists would seem to confirm that art can have a life enhancing role no matter how atrocious the circumstances of its creation. When what was to have been their new gallery space was destroyed by shelling before they had moved into it in spring 1992, they decided to exhibit their work there anyway, and organised a group show in December in the ruins of the basement.

Meanwhile, the basement had become a safe passage for pedestrians across an intersection notorious for sniper fire. The artists' diary of the exhibition has photographs showing passers-by, one still in a crouching run, one clutching a loaded shopping bag, staring in amazement at them calmly arrranging their work. "The artists wanted to keep it as a space for spirituality..." Izeta Gradevic explained, and their installations among the ruins, some of which have now been brought to Edinburgh, became an affirmation of the determination to be civilised, to behave above all with decency and dignity, which was coming under such brutal attack. "People were surprised and happy, they were crying at the opening. When you have no food, no water, no electricity, people used to say is art so important? Now they do not ask that question."

Witnesses of Existence comes to the Atlantis Gallery, London, in December.

Treats from the Fringe

If you plan an Edinburgh evening wisely, you can see at the Assembly Rooms *Anorak of Fire*, followed immediately by *The Fabulous Lypsinka Show*. The two shows are so completely in contrast that the juxtaposition is very satisfying. *Anorak* is male, English, naive, inhibited; *Lypsinka* is female, American, sophisticated, full-out. *Anorak* has been around for a year and has many cult followers; but oh, Lypsinka!

I must explain that I do not call Lypsinka female in the most literal sense. She is John Epperson, who is both writer and performer, and she not only transcends the camp drag act she performs, she actually makes a searing feminist point. She is extremely funny, but she repeatedly wipes the laughter off your face.

Like so many drag artists, Lypsinka reproduces feminine glamour, but what makes her so original is that she is all *about* reproducing femininity. She mimes to a tape that is a brilliant collage of quotes and acts by a hundred different American popular divas of stage, screen and cabaret, and as her act proceeds it becomes a study in the desperation of trying to fit the image of femininity.

There are the desperations of the drag artist trying to fake femininity; of the woman trying to fake diva glamour; of the diva trying to maintain glamour. And all of it for the sake of men. Or is it? Within Lypsinka the vamp lies Lypsinka the man-hater that bursts out to the stabbing shrieks of *Psycho*-type music. The two faces of her persona are, deep down, different faces of the same attitude: desperation again, arising from her need to thrill men, to obtain men, to live for men, and from her plight of never finding Mr Right, of being wronged by Mr Wrong.

One moment she is performing to "The things I've done to make you love me", the next to "Isn't it plain, I can't bear to be handled. Don't touch me." The quick alternation is hilarious, and at the same time, horrifying. The artifice of glamour becomes more and more obvious, and the torture of striving for perpetual chic becomes more alarming. And yet, despite yourself, you laugh.

Is it possible to be both camp and innocent? The Topp Twins, from New Zealand, manage it. Their show has now ended at the Traverse, but I loved it and I hope Britain sees them again soon.

In their late-night show, *Camping Out*, they welcomed us to the Happy Valley Camping Ground. One of them was called Camp Mother, the other Camp Leader. If you put Dame Edna into *Hi-de-Hi!*, you might begin to get an idea. "We're going to try something tonight we haven't tried in a long time," Camp Mother announces, "We call it audience participation. You call it fear." And soon we were singing camp songs, up onstage playing camp games, and several of us ate camp food. We knew it was safe, because we had watched Camp Mother frying it.

The innocent fun of it never palled. But what made *Camping Out* something rare was its sheer professionalism – the Topp Twins are very good singers – and the detail with which they built up their characters. Camp Mother and Camp Leader are both relentlessly jolly, bespectacled, spinsters. Camp Mother throws herself into camp activities with immense vim. In consequence, she has to keep briskly readjusting her boob-tube. Camp Leader is more tongue-tied and nervous, but gets terribly over-excited. She grins awkwardly, her little tongue flickers out like a snake's, she blinks and wrinkles her nose. Then at last she gets to have the stage to herself for two minutes. "I'd like to point out how *mahvellous* Camp Mother has been this year," she says with a nervous giggle. "She had more than her share of heartbreak last year, you see. Well," (conspiratorially) "as a matter of fact," (chortle) "she get *jilted!*" For a moment Camp Leader is convulsed in glee.

Another fringe highlight is *The Big Window*, a 100-minute musical at Theatre Workshop performed by an Anglo-American cast of 10 and band of three. This is a delicate, sophisticated piece which deals with heartbreak and sexual confusion in an urban milieu.

The music, composed by Linda Dowdell, is in an eclectic vein of high jazz. The words, by Kate Browne, have a fine talent for light irony. "You and I have known each other a long, long time. We are, if I remember correctly, even married." And she and Dowdell have so collaborated that the words move into haunting Gertrude-Stein-type cycles: "Perhaps she said perhaps." There is a wide panoply of rhythm, some deft choreography by Kraig Patterson, but the most exciting thing of all is that Dowdell shows a very rare instinct for word-setting. In ensembles, in solos, in high-jumping vocal lines, she plants words with exceptional clarity and to great effect. While you applaud, you hope this is the embryo of some larger project.

The Hour We Knew Nothing of Each Other

People come, people go. (Nothing ever happens in Grand Hotel.) They have their exits and their entrances. Time passes. Peter Handke's play *The Hour We Knew Nothing of Each Other* has stage directions but no words. And its top layer – as realised by Luke Bondy's staging for the Schaubühne am Leitner Platz, Berlin, now at the Edinburgh Festival Theatre – is an absurdist study in character.

Individuals cross the stage, each revealing some different peculiarity; and many of the vignettes concerning them are funny. There are the four Austrian-type tourists, determinedly trekking along against all odds, beaming their wonder; the two old peasant women pushing shopping-trolleys; the lone male roller skater who finds time to stroke his hair oh so casually and then glides offstage in a sudden arabesque; the SAS-type soldiers who zoom perilously onto the stage and straight off again; a Tarzan who swings onto the stage and then walks across it like an ape; a Papageno, whistling appropriate tunes by Mozart, with his birdcage, who gets clobbered by a harmless-looking gent carrying a huge pack of nappies.

All of them look as if they were *New Yorker* cartoons. But the fun of a cartoon is that it is one frozen moment out of time. *The Hour We Knew Nothing of Each Other*, however, is 120 minutes long. And it soon adds up to a view of the world – a world peopled by oddballs, where nothing has rhyme or reason, where noises off (guns? bombs?) frighten everyone into defensive posture.

The mood only darkens after an hour or more, although you know from one look at Gilles Aillaud's elegant after-Magritte set that darkness will descend. An Egyptian dog-deity on a plinth; an old car half-covered by a dust-sheet; a blue horizon; a manhole; an incomplete white wall... The fact that these scenic elements do not add up to anything coherent is, of course, the whole point.

Let nobody think that any of this is the least bit original, by the way. The shape of it is extremely reminiscent of many Merce Cunningham works, and many of its comic anecdotes have been prefigured in any number of ballets by Jerome Robbins. And the Dadaist feel of it all, the collection of bizarre human eccentricities, derives from such Pina Bausch works as *1980*.

So why do I find so much less merit in Handke's play than in these works it so resembles? He is only interested in external differences. Whereas Cunningham honours human potential and makes it large and complex, Handke knocks it down to size and makes it pointless. Even Bausch, to whose Teutonic spirit he is much closer, is more interested in the urgent internal forces that motor the unhappy crazies she puts onstage. Handke's play is the hour we knew nothing of each other – and cared less.

At the Edinburgh Festival Theatre till September 3

INTERNATIONAL

ARTS GUIDE

The Glory of Venice

The main autumn exhibition at London's Royal Academy is devoted to the art of 18th century Venice. Opening on September 15, it will encompass the whole range of artistic production, including painting, drawing, printmaking and sculpture.

Venetian painters of the 18th century built on a tradition inherited from the Renaissance, when the lagoon city's reputation as a great centre of art was established. They created works in which colour and light were of paramount importance, producing altarpieces for cathedrals, decorative paintings for the laity, and portraits and views of the city for tourists.

Several of Canaletto's most spectacular views from England and Venice will be on show. The other great view painters, Francesco Guardi and Bernardo Bellotto, will also be represented. All aspects of the work of Giovanni Battista Tiepolo, the presiding genius in Venice at the time, will be featured - including a rare showing of St James of Compostela (1751), on loan from Budapest.

The work of Tiepolo's contemporary, Giovanni Battista Piazzetta, should prove one of the revelations of the exhibition. One of the least known artists of the period, Piazzetta painted altarpieces of great dramatic power - one of which, Archangel Raphael with SS Antony of Padua and Luigi Gonzaga (c1730), has been specially restored. Our knowledge of daily life in the city is in part due to painters of genre scenes, including Pietro Longhi, who recorded everything from a lady's morning toilette to regattas and street vendors.

Three artists who bring the show to a close were to sow the seeds for developments in 19th century art: the painter Bellotto, the engraver and draftsman Piranesi and the sculptor Canova.

Tickets will be available on the day at the Royal Academy, or you can avoid queues by booking in advance at First Call (tel 071-240 7200). The exhibition, sponsored by Sea Containers Ltd, runs till December 14.

■ **EXHIBITIONS**

AMSTERDAM
Rijksmuseum The Renaissance Print 1470-1500. Ends Oct 30. Closed Mon
Van Gogh Museum Van Gogh's Self-Portraits. Ends Oct 9. Daily

ANTWERP
Hessenhuis-Museum Music and Painting in the Golden Age: 50 paintings by 17th century Netherlandish masters. Ends 7 Oct 30. Closed Mon

BERLIN
Berlinische Galerie Raoul Haussmann (1886-1971): retrospective of one of the leading figures in the Berlin avant-garde of the 1920s. Ends Oct 2. Closed Mon
Ephraim-Palais Berlin Painting from Blechen to Hofer: a selection of the most important 19th and early 20th century paintings from Berlin galleries. Closed Mon (tel 238 0900)

BONN
Kunsthalle The Century of the Avant-Garde in Central and Eastern Europe: 700 works by 200 painters and sculptors, offering a thematic guide to the main artistic developments of the past century. Ends Oct 16. Closed Mon

BRUGES
Groeningemuseum Hans Memling: 40 works by the 15th century Flemish master. Ends Nov 15
St John's Hospital Modigliani Drawings 1906-1914. Ends Oct 2

CHICAGO
Art Institute Odilon Redon: 180 works by the late-19th century French painter-poet. Ends Sep 18. Goya: 100 small-scale paintings. Ends Oct 16. Daily

COLOGNE
Wallraf-Richartz-Museum Wilhelm Leibl: 150th anniversary tribute to the Cologne painter who was leader of German Realism in the late 19th century. Ends Oct 23. Closed Mon

DRESDEN
Kupferstich Kabinett James McNeill Whistler: a rare German showing of etchings and lithographs by the American artist who established his reputation in Europe in the late 19th century. All 62 exhibits were collected in Dresden between 1892 and 1919, and are being shown for the first time. Ends Nov 25. Closed Sat and Sun

ESSEN
Villa Hügel Paris - Belle Epoque: an evocation of the period from 1880 to 1910 with paintings, drawings, posters, photographs, glass and furniture. Ends Nov 13. Daily

FLORENCE
Palazzo Pitti Royal Treasures from Denmark: silver furniture, royal costumes and ivories dating from the era of Frederik IV of Denmark, who visited the court of Cosimo III in Florence in 1709. Ends Sep 11

GLASGOW
Burrell Collection Aspects of the Italian Renaissance 1400-1650: an exhibition of paintings, glassware, ceramics, decorated arms, illustrated books, textiles and musical instruments, capturing the spirit of an extraordinary period of creativity. Ends Sep 25. Daily

HAMBURG
Deichtorhallen The Century of the Multiple: 130 artists are represented in this survey of multiple art editions in three-dimensional form, ranging from early replicas of objects by Duchamp and Man Ray, to present-day mass reproductions. Ends Oct 30. Closed Mon
Kunsthalle Masterworks from the Guggenheim Collection: 60 paintings by Picasso, Braque, Dubuffet, Bacon, Chagall, Kandinsky and Mirò. Ends Sep 25. David Hockney: drawings from 1954 till the present. Ends Oct 10. Closed Mon

LONDON
British Museum Greek Gold - Jewellery of the Classical World. Ends Oct 23. Daily
Victoria and Albert Museum Pugin - A Gothic Passion: retrospective of the 19th century British architect and designer. Ends Sep 11. Daily
Royal Academy of Arts The Belgian Avant-Garde 1880-1900. Ends Oct 2. Daily (advance booking 071-240 7200)
Courtauld Institute The Samuel Courtauld Collection of Impressionist Paintings. Ends Sep 25. Daily
Tate Gallery Turner's Holland. Ends Oct 9. William Blake - Art and Revolution: an exhibition focusing on the English artist's output in the 1790s. Ends Oct 16. Daily

LUGANO
Villa Favorita The St Petersburg Murakka: first-ever public display of 98 large double-sided folios of breathtakingly beautiful calligraphy by the celebrated late 16th century Persian court artist Mir 'Imad Al'Hasani. Ends Oct 2. Europe and America: 19th and 20th century oil paintings and watercolours ranging from the Hudson River School to examples of Cubism, German Expressionism, the Russian avant-garde, Dada, Surrealism and Pop Art. Ends Oct 30. Closed Mon. No parking facilities: take Bus no 1 (tel 091-516152)

NEW YORK
Metropolitan Museum of Art The Annenberg Collection of Impressionist and Post-Impressionist Masterpieces. Ends Nov 27. Dali - The Early Years. Ends Sep 18. Closed Mon
Museum of Modern Art British Drawings 1890-1990. Ends Sep 13. Closed Wed
Whitney Museum of American Art Edward Hopper (1882-1967) and Jack Pierson (b1962): the latter has selected 20 works by the former, and placed them alongside his own work. Ends Sep 11. Joseph Stella (1877-1946): more than 200 works by the American modernist. Ends Oct 9. Closed Mon

PARIS
Musée d'Orsay Nadar, Photographs 1854-65: Nadar was a friend of writers and painters, whose portraits raised photography to a creative art. Ends Sep 11. Closed Mon
Centre Georges Pompidou Joseph Beuys: retrospective of one of Germany's leading avant-garde artists of the postwar period. Ends Oct 3. Closed Tues
Musée Picasso The world's largest collection of Picasso's work is completed by his own collection of paintings by friends such as Braque and Matisse, and artists he admired, such as Renoir and Cézanne. Closed Tues (4271 2521)
Musée Rodin This delightful 18th century town house contains the life work of the sculptor Auguste Rodin. Closed Mon (tel 4418 6110)
Musée Marmottan This museum houses an important collection of paintings by Monet, including Impression-Soleil levant, from which the Impressionist movement took its name. Closed Mon (tel 4496 5033)

VENICE
Antichi granai della repubblica China in 220 BC - The Warriors of Xi'an: ten of the 7,000 lifesize terracotta soldiers who guarded the tomb of Emperor Qin Shihuangdi in central China, along with copies of war chariots and weapons discovered in one of this century's most dramatic digs. Ends Sep 11. Daily

VIENNA
Jüdisches Museum Max Oppenheimer (1885-1954): retrospective of one of the most neglected figures in early 20th century Austrian art. Ends Sep 18. Closed Sat
Kunsthistorisches Museum Tintoretto portraits. Ends Oct 30. Albrecht Dürer: a selection from the museum's collection of work by the early 16th century German master. Ends Oct 30. Closed Mon

WASHINGTON
National Gallery of Art From Minimal to Conceptual Art - Works from the Vogel Collection: 90 drawings, photographs, paintings and sculpture by contemporary artists, including LeWitt, Christo, Ryman, Beuys and Flavin. Ends Nov 27. Daily
Freer Gallery of Art Chinese Calligraphy: the exhibition focuses on varied uses of calligraphy on 36 decorative and utilitarian objects made of clay, lacquer, jade, bamboo, silk and wood, dating from the 7th to 19th century. Ends next May. Egyptian Glass: 15 brilliantly coloured glass vessels dating from the second millenium BC. Daily
Arthur M. Sackler Gallery Lois Conner - Photographs: 80 large format photos depicting architecture and nature by the American photographer working in Asia. Ends next May. Daily

ZURICH
Kunsthaus Dada Global: a large selection of paintings, drawings and collages by Duchamp, Man Ray, Ribemont-Dessaignes, Max Ernst and many others, relating to the nihilistic movement founded in Zurich in 1916. Ends Nov 6.

Environmentalists must live with trade, says **Clayton Yeutter**

'Gatting' the Greens

PERSONAL VIEW

Recent congressional debate might suggest to most Americans that trade and environmental policies are incompatible. Some environmental groups fear that decisions made by the World Trade Organisation may force a "lowest common denominator" reduction in environmental protection in the US and elsewhere. Proponents of trade expansion are equally worked up, fearing inclusion of environmental issues on the WTO agenda will add burdensome delays and complexities to trade policy decision-making.

Both sides are over-reacting. There is no inherent conflict between environmental protection and open trade; they are not mutually exclusive goals. There is nothing in General Agreement on Tariffs and Trade rules – rules soon to be assumed by Gatt's successor organisation, the WTO – that precludes consideration of environmental issues during a multilateral negotiation. The more relevant question is whether those issues are ripe for negotiation on a global basis. A second, and perhaps even more relevant, question is whether those who seek consideration of environmental issues have as their primary motivation protecting the environment, or impeding trade.

The challenge for international environmental policy is to strike a sensible balance between economic development/job creation/trade expansion, on the one hand, and environmental protection on the other. In recent years most environmental organisations have begun to embrace market-based solutions to environmental issues, recognising that markets and growth are not generally inconsistent with environmental protection. There remains, however, a cadre of hard-core activists who view command-and-control regulation as the only legitimate environmental policy, and who also view economic growth as an enemy of the environment. This hard-core group seems bent on enshrining unilateral trade retaliation, extraterritorial regulation, and unfettered regulatory sovereignty as the cornerstone of US trade and environmental policy.

Painting the new WTO as a "Gattzilla" out to devour the environment, as some environmental groups have done, trivialises the challenge of determining how best to mesh environmental protection with economic growth and trade expansion throughout the world. That answer is not to be found in a massive global environmental bureaucracy, nor in unilateral imposition of US environmental standards on developing countries; citizens of the third world are not about to be consigned to a future as hewers of wood and drawers of water. The answer must be found through multilateral consensus within Gatt (and then the WTO).

Gatt is already addressing many of these difficult and vital issues. The present agreement specifically permits nations to take measures to protect the environment, so long as they are aimed at conservation of exhaustible natural resources and are taken in conjunction with restrictions on domestic production or consumption.

This is broad language, and it has been interpreted broadly. Too often the positive side of Gatt's record on environmental issues has been overlooked. Gatt has clearly stated that a nation may have more demanding environmental standards than those in other countries - so long as they are not more trade restrictive than necessary. Gatt has also ruled that nations may take balanced action for conservation of natural resources outside their borders and that restrictions may be imposed to conserve a natural resource even if its stocks are not presently depleted. Gatt thus encourages nations to conserve resources for future generations.

Just recently the Gatt established a special committee on trade and the environment. It will study and report (to the new WTO) on a whole range of environmental issues of concern to US business, including the trade effects of packaging and labelling requirements, product standards, and environmental charges. The US trade representative will also have an advisory committee on the environment to examine similar issues.

The WTO must eventually confront these issues – in a manner compatible with Gatt's historic objective of opening trade. WTO member nations must act objectively and systematically, lest they seriously jeopardise a half-century of progress in liberalising trade. The US, as a leader in the WTO and a force for both open trade and environmental protection, should nurture this process, helping its fellow WTO members to avoid premature, capricious judgments concerning the future interrelation of the environment and trade.

Only through multilateral consensus can the US achieve change in international trade rules or environmental standards.

All this is relevant to the present debate over giving the President "fast track" authority to negotiate environmental agreements. We simply do not yet know whether it would be in the self-interest of the US to negotiate on these issues, and we certainly do not yet know what our specific negotiating objectives would be. Most other nations are not nearly as far along on the "negotiating curve" as we are. After the recently established committee on trade and the environment reports its findings, interested parties in all nations can assess whether new trade/environmental negotiations are appropriate. If so, let's negotiate; if not, the WTO can and will move on to other issues.

The Gatt accord now before Congress will allow an individual WTO member to impose higher product standards than other nations so long as the standards are based on sound science. The US supports this concept, for it encourages environmental stewardship, but we need to make sure that "high" standards are not used simply to gain an unfair competitive advantage.

Standards that cannot be supported scientifically will properly be subject to WTO challenge. Bad science is too often just disguised protectionism. Good science will improve public health and environmental quality around the globe, and it will also enhance the credibility of its proponent organisations.

Only through multilateral consensus can the US achieve meaningful change in international trade rules or global environmental standards. The US cannot mandate standards, because the Gatt – to the frequent benefit of the US – has traditionally operated by consensus. (Though that could change under the WTO, it is unlikely to do so except on rare occasions.) Therefore, the key to success is to negotiate and negotiate well.

If we have unrealistic negotiating objectives in these new areas, the negotiations will not succeed. That would do nothing to protect the environment. But we can work through the WTO and other international bodies to convince other nations of our positions and to encourage the adoption of sound principles to improve environmental protection.

Reducing trade barriers in industrial countries will also encourage developing countries to raise their own standards of environmental protection. Nations devote more attention to protecting the environment as they become richer. As a middle class emerges and grows, demands for protection of the environment increase. We should work with this trend, not against it.

In short, we need to "Gatt" the greens, not "green" the Gatt. Multilateral co-operation on issues affecting trade and the environment will offer a stronger and more secure basis for environmental protection than ad hoc, politically charged actions by individual nations, however well intentioned. Those of us who have worked on trade issues for many years do not believe that open trade and environmental protection are inconsistent goals. We look to the future, with confidence that the WTO will properly mesh legitimate objectives in both areas.

Ambassador Yeutter, former US Trade Representative and Secretary of Agriculture, is counsel to the Washington-based law firm of Hogan & Hartson

Trade union leaders John Edmonds (left) and Jimmy Knapp: a disturbing peek into the future

Waiting for the workers' harvest

David Goodhart on attempts to update UK trade unions

"Trade unionism in Britain is like a pruned back plant poised for a new burst of growth." The 1,000 delegates assembling this weekend in Blackpool for the 126th gathering of the Trades Union Congress may draw comfort from the words of Mr John Monks, TUC general-secretary. But could the TUC's modernising leader just be whistling to keep their – and his – spirits up?

The immediate outlook for trade unionism, as he himself acknowledges, is not good. Membership has continued to decline, by 400,000 to 7.2m, over the past year despite the fact that unemployment started to fall. Long-term trends contributing to the decline of unions and collective bargaining – the shift from manufacturing to services and the shrinking size of the average workplace – persist.

Nevertheless, TUC delegates can find some reasons for feeling cheerful. The arrival of Mr Monks, who only took over from the unappealing Mr Norman Willis last year, has almost certainly improved the public standing of the TUC and unions in general.

He has reorganised the TUC to give it a sharper focus; attempts to reposition it as a non-party political lobbying organisation for all employees are begining to take effect. The arrival of Mr Michael Portillo as employment secretary may reduce the scope for dialogue with the government. But Mr Monks can develop further his friendly relationship with the Confederation of British Industry and later this month he will be the first TUC general secretary to address meetings at the Liberal Democrat and Conservative conferences.

Best of all for the unions as a whole, the biggest challenge they faced for years has been surmounted with relative ease. Recent legislation has required them to obtain positive consent from members before employers can "check off" union subscriptions from pay packets, in effect requiring unions to re-recruit the 80 per cent of members who pay union fees this way. Overall, TUC-affiliated union membership may shrink by about 500,000 as a result.

But for the first time in 15 years, the movement can look the government in the eye and state that its core membership is real and voluntary.

But in spite of Mr Monks's personal achievements, his attempts to modernise the union movement may be insufficient to stem long-term decline. In addition his reforms face opposition from within union ranks.

Some of the more conservative union bosses have not grasped that European-style social partnership – which the TUC leadership regards as providing a new lease of life for the movement – requires changes from them too. There could be rows at the Congress on the policy of supporting workplace rights for all workers, rather than just union members, and on the shift to a less politically partisan stance.

Mr Monks's modernisation strategy has few reliable allies in the big unions, while the TUC's two biggest affiliates – Unison, the public service union, and the TGWU general union – remain consumed by splits between different internal factions.

Further, some old fashioned problems could be looming. Several unions are facing financial difficulties, none more than the heavily-indebted building union Ucatt. Mr John Edmonds, leader of the GMB general union, says the fortunes of the unions no longer rise and fall together and that it is now a question of the "survival of the fittest".

Another echo of the past could be a revival of strike action. Mr Jimmy Knapp, chairman of this year's Congress and leader of the embattled RMT rail union, is enjoying strong public backing for his striking signal workers.

But the relative popularity of unions may be because strikes are so rare. A renewed bout of militancy over wages, often predicted in the course of the recovery, could undermine the support unions have begun to enjoy. So, too, could possible large-scale disputes over compulsory redundancies at British Telecommunications or British Gas, which could cause much disruption for the public.

Worst of all for the future of the unions, there is no sign at the workplace that employees are turning to them for support in the face of increased labour market insecurity.

Unions are failing to improve their record in the recruitment of women or part-time workers. Only 21 per cent of part-timers are in unions compared with 37 per cent of full-timers, while the proportion of women workers in unions fell last year to 30 per cent.

There is also no evidence that employees who are not covered by collective bargaining agreements are starting to join unions as an insurance policy, for legal help and advice on subjects such as pensions.

Despite these obstacles to renewal the unions are not completely helpless. They can look to two outside sources for help – the European Union and the Labour party.

The EU is already passing union-friendly legislation in areas from health and safety to works councils for consulting workers. And although the EU's social dimension is not expected to produce much new legislation for a few years, there is still plenty in the pipeline for organised labour to welcome – despite the UK's opt-out from the social chapter.

But for an actual increase in union membership, or even for an end to persistent decline, a Labour victory at the next general election is a necessity. Mr Tony Blair, the Labour leader has talked about treating unions as just another pressure group. He will be anxious not to play into the hands of a Conservative party which will point to the apparent tension between Labour's commitment to full employment and its union-inspired policies on minimum wages and workers' rights. But a new right to represent workers, stopping short of full union recognition, is certain to appear in Labour's manifesto. "That would open the door for us to show that we can help workers in difficulty," says Mr Edmonds.

UK trade unionism may be a pruned-back plant but it is still waiting for fertilisation from outside.

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LETTERS TO THE EDITOR

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Weakness of European defence industry

From Mr Alain Deckers.

Sir, Lex is right to argue that the consolidation of the US defence industry sets a challenge to Europe's defence industry ("Allied forces", August 31). Yet this trend has been ongoing for a number of years, and the European defence industry's reply has been less than wholehearted.

The fact is that it remains hopelessly fragmented, largely for political reasons. European companies which have undertaken cross-border mergers (Matra Marconi Space, Eurocopter) have been slow to implement unified management structures while others continue to engage in endless negotiations before embarking upon them (British Aerospace Dynamics and Matra Defence). This compares unfavourably to US deals which are clinched in months not years.

Furthermore, the *Groupement d'Interet Economique*, which is so prevalent in the European defence industry, tends to perpetuate national reporting systems and duplication of effort. While second and third-tier suppliers have fared somewhat better, the picture in European defence R&D is equally incoherent, being dominated by a host of bilateral treaties and *ad hoc* collaborative projects with little or no co-ordination among them.

Previous attempts to provide a blueprint for a competitive European defence equipment market, such as the Independent European Programme Group's 1988 Action Plan, have lacked any credibility since they did not include a supranational executive agency which could force national governments to act. Yet deregulation and rationalisation of the European defence agency are desperately needed.

If European governments do not wish to abolish article 223 of the Treaty of Rome and thereby give the European Commission oversight over the defence industry, it is at least incumbent upon them to find an alternative organisation which could fulfil this role. The western European Armaments Group seems the only credible candidate, and steps in this direction need to be urgently revitalised.

Alain Deckers,
postgraduate student,
Programme of Policy Research in Engineering Science & Technology,
Manchester University M13 9PL

Lots of life at the English seaside

From Mr Procter Naylor.

Sir, Michael Thompson-Noel is, as a travel writer, entitled to his subjective views about Great Yarmouth ("The English coast and its holidays from hell", August 27/28). However, I am surprised that you have allowed him to muddle these with what purports to be a business assessment of the state of England's tourism and its resorts.

He tells us that we have lost our soul to "naffness". The bits in between (the resorts) are "often occupied by drab caravan parks". If he had bothered to go and look at these caravan parks and holiday centres he would have found a number of thriving businesses and would have seen the result of many years of steady investment by both national operators such as Pontins, Haven and Warner and by private operators such as, in the Great Yarmouth area, Potters, Blue Sky (the Timewell family), Cherry Tree (the Marsh family), or Vauxhall. In any of these caravan holiday parks he would have found a wide range of sporting facilities, indoor and outdoor swimming pools and, most importantly, a variety of evening entertainment that he would not have found at twice the price in France, Spain, Portugal, Italy, Greece, Morocco, Tunisia, Bermuda, the Caribbean, Australia, New Zealand, Fiji, the Philippines, Thailand, Malaysia, Mexico, California, Canada or even Scotland!

Adele Biss, chairman of the British Tourist Authority and of the English Tourist Board, was right to highlight some of the problems that our holiday industry faces in her introduction to the ETB's annual report. I prefer this honesty to the over-optimistic messages put out by some of her predecessors. There still could be a further contraction in hotel accommodation in resorts. But standards are improving. There is a need for more imaginative use of parasols, windbreaks and deckchairs to make our beaches attractive in the way that the Belgians and the Dutch achieve with the same climate as we have.

But there is life yet in England's seaside resorts and Financial Times readers should be aware that there is still money to be made there too! Mr Thompson-Noel would do well to reflect on what would be the effect on the national parks of the resorts closing down and all those who holiday there following him to the countryside.

Procter Naylor,
managing director,
East Anglia Tourist Board,
Toppesfield Hall,
Hadleigh, Suffolk IP7 5DN

Perverse argument

From Mr Peter Benton.

Sir, The concluding paragraph of your editorial 'Venturing Capital' (August 30) surprised me. "Generating more investment in small enterprises. . .cannot in itself be regarded as a sane objective" looks perverse, when earlier you point out some of the peculiar problems that small companies face in raising funds. If the cost of due diligence is high in relation to the sums invested, surely that argues for an enhanced return after a successful investment? No one doubts the contribution that small business can make to the economy; it seems a pity that so many hopeful enterprises are strangled at birth.

Of course fiscal treatment is only part of the solution; the availability of quality information on investment opportunities is also crucial. That is what we are trying to promote.

Peter Benton,
chairman,
Enterprise Adventure,
The Enterprise Pavilion,
London Square, Cross Lanes,
Guildford, Surrey GU1 1UG

Japan economy theory needs further analysis

From Mr Peter McGregor.

Sir, Martin Wolf's latest theory (Economic Eye, August 29) that the way to have a successful economy is to run a large trade deficit with Japan would be more convincing if he had analysed the imports of countries like Singapore, Hong Kong and Malaysia to discover how much of these were semi-manufactures from Japan to be completed with low cost labour and re-exported to the west. As it happens, the situation in Malaysia appeared in your survey (August 30), in which it was reported that typical products have 60 or 70 per cent of the value added in Japan or the US, a balance which the Malaysians are trying to change. What this means is intermediary "Wolf-successful" countries merely provide cover for a Japanese trade surplus with the west which is even larger than the statistics show.

His suggestion that "sophisticated econometrics does not support the belief that (Japan's) imports are smaller than might reasonably be expected" also needs to be looked at critically, since studies in depth on the ground tell quite a different story, as was demonstrated for the construction industry in 1990. Incidentally, I am disappointed to find that Wolf is not the simple-minded free trader that I had always assumed, but a believer in sophisticated econometrics. This has the great danger of substituting a delight in the process for a hard look at the facts.

No doubt he will be telling us next that the Japanese are not Keynesians.

Peter McGregor,
Dacre Cottage,
Longworth, Oxfordshire

Some hope

From Mr George D Mackenzie.

Sir, Is there any hope that if members of parliament are refused their proposed pay rise they may go on strike?

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Seeking a role for Apec

The 17 members of the Asia-Pacific Economic Cooperation forum have been long on visionary declarations about forging closer regional ties. They have been much shorter, however, on specific plans. This week, a panel of expert advisers sought to fill the vacuum with a blueprint for the long-term development of the organisation.

Under the rubric of "open regionalism", their report urges Apec leaders to commit themselves at their November summit in Jakarta to the total elimination of trade and investment barriers in the region by 2020. The aim, they stress, should not be to create an inward-looking trade bloc, but to use liberalisation within Apec to promote the advance of global free trade, in conformity with the principles of the Gatt.

The authors of the report are to be commended both for their forthright rejection of the notion of a "Fortress Apec" and for their drafting skills. In formulating their recommendations, they have had to bridge widely differing viewpoints among the organisation's members. While the US and Australia are keen that Apec should develop into an active trade negotiating forum, that idea is opposed by a number of Asian members, including Japan and Hong Kong. Against this background, the government-appointed experts' unanimous agreement on the report's recommendations is no mean feat.

Whether their proposed way forward is either politically feasible or economically desirable is, however, much more debatable. Impressive as the aggregate economic weight of Apec's members may be – accounting for half the world's trade and 60 per cent of its GNP – their diversity is more striking than their similarities. They include the US and Japan, the world's two richest economies, but also China and Indonesia, two of its poorest. The main distinguishing feature of economic relations within Apec is the dependence of most of its members on trade with the US, rather than with each other.

Big confrontation

This is not an obvious basis for regional trade liberalisation. It is made no easier by the fact that disputes between Apec members are also at the heart of almost every big confrontation in the international trade system, ranging from trade in services to anti-dumping, labour standards and the environment. It is unclear that Apec's members would be better able to settle these differences in regional negotiations when they have signally failed to do so in the Gatt. It is no less utopian to believe that the US will suddenly drop its aggressive trade stance towards countries such as Japan and China and agree to offer them trade concessions as part of Apec-wide liberalisation.

Daunting hurdles

But even if these daunting hurdles could be overcome, would an Apec liberalisation programme benefit the world economy, as the report's authors contend? Their argument rests heavily on the claim that freer regional trade provides powerful momentum at the global level. To the extent that disputes between Apec members are responsible for thwarting progress in the Gatt, they may have a point. Against that, the notion raises two objections.

One is that any meaningful regional programme would require a huge commitment of government resources, and would therefore be likely to divert negotiating efforts away from the Gatt and its planned successor, the World Trade Organisation. The other objection is that any liberalisation programme designed primarily to satisfy Apec members could become an alternative to the Gatt. The consequences would be all the more serious if the programme aimed, as the report recommends, to tackle not only border obstacles but government procurement and competition policy. Other countries which sought reciprocal trade agreements with Apec might then have no choice but to accept rules dictated by the organisation.

At present, that remains a remote possibility. It is one that many of Apec's members – as well as other countries – would also strongly resist. The experts' report offers Apec leaders an extremely ambitious agenda. Their sensible course in Jakarta may be to settle for more modest objectives.

Life with Tiny (cont)

It would be understating things to say that Mr Roland "Tiny" Rowland of Lonrho is an anachronism in the sanitised entrepreneurial world of the late 20th century. Despite the mushroom growth of rules, regulations and codes of corporate conduct he is still there, defiant, at the age of 76, even as the remuneration committees roam and the audit committees delve. Yesterday, despite reports of an impending boardroom coup, he emerged with his expenses uncut, his position intact and his life expectancy almost certainly enhanced. It is, of course, an act to which he has devoted some practice.

The directors who are hostile to Mr Rowland can console themselves with the thought that he is (probably) mortal. But they will have to hone their skills at corporate trench warfare if they wish to procure any other dénouement in the near term. For outside observers the question is whether there are wider lessons to be drawn from the continuing saga surrounding this most durable of maverick entrepreneurs.

That seems doubtful because Lonrho is *sui generis*, even if Mr Rowland is not. But it remains worth asking how the man who built up this huge international conglomerate has been able to run it down again over such a protracted period without anyone pre-empting the process. It is not as if Mr Rowland has had a controlling interest in the company. Yet he has had a remarkably free run in capital markets where the penalties for poor performance have grown harsher in recent years. If he is now under threat from his fellow joint managing director and chief executive, Mr Dieter Bock, it is only because he himself chose to bring him into Lonrho as a potential successor.

Straight eight

One explanation for Mr Rowland's *laissez-passer* stems from the outcome of the earlier, notorious boardroom row in 1973, when the so-called straight eight directors failed to unseat him over several issues of corporate governance including excessive expenses. From then on Mr Rowland became a pariah with the big investment institutions, the insurance companies and pension funds responsible for most of the net inflow of cash into the equity market. Yet because he retained the support of small shareholders, Lonrho was transformed into a perfect illustration of the thesis advanced by the American academics Berle and Means, who pointed out the consequences of the divorce between ownership and control.

In contrasting the situation in the early 1930s with the days when proprietors held enough stock to exert proper control, Berle and Means showed that the fragmentation of shareholding in the 20th century had deprived shareholders of power and influence. That was certainly the case at Lonrho, where earnings stagnated between 1976 and 1987. Today Lonrho has still not returned to the level of earnings achieved in the upturn that came to a peak in 1988. Yet Mr Rowland hangs on regardless.

Dismal performance

Elsewhere this dismal performance might have prompted institutional pressure for boardroom change, because the growth of collective investment is helping close the gap between legal ownership and control. Yet without enough large shareholdings at Lonrho until institutional interest recently started to revive, this was never a possibility. As for the alternative discipline of the hostile takeover, Lonrho is a highly indigestible target. With so much of its profits in Africa, and a marked difficulty in generating cash flow, it would never have been an easy business to refocus.

The recent rise in the share price on hopes of Mr Rowland's enforced departure suggests that the market regards Lonrho as a vastly more valuable prospect without the man. Yet, historically, potential bidders who have been prepared to contemplate heavy exposure to an economic disaster zone like Africa have always worried about a uniquely African poison pill: the possible dependence of profits on Mr Rowland's personal relations with black African leaders. The broad message, if there is one, is that wider share ownership entails weak accountability and poor corporate governance. The narrower indisputable one is that Mr Rowland is a spent force in business, but not in the boardroom.

Alan Pike says fast-growing, unregulated security groups are causing concern in the UK industry – and the police

Hot under the collar of the law

If you want to know the time ask a policeman, advised the old music hall song.

How things have changed. Telling people the time is not an activity requiring the commitment of expensive, highly-trained police. Neither, the UK government may be about to conclude, are more important activities such as checking fingerprints, tracing missing persons or monitoring automatic speed-check equipment.

The Home Office is currently completing an internal review of specific policing functions as part of the government's review of public expenditure. Although ministers say this will not necessarily lead to changes in police responsibilities, the service is not convinced. Officers suspect the review will prove the prelude to market testing and the transfer of "ancillary" tasks to the private or voluntary sectors.

Events have not awaited the review's completion. Last week's announcement by Wandsworth council in London that it was considering extending its uniformed parks patrols to housing estates has sparked debate about the appropriateness of assigning policing duties to individuals who lack the training and status of police officers.

Controversy over Wandsworth's plan is in the detail – specifically its suggestion that patrols, with the powers of constables, should be sworn in by magistrates – rather than the substance. The Association of Chief Police Officers said patrolling was "one of the most difficult jobs which police officers are asked to undertake" and should not be attempted by under-qualified individuals.

Several local authorities have, without arousing opposition, begun using uniformed personnel to combat crime, while private security staff are increasingly deployed on guarding activities that bring them into contact with the public.

Completion of the review may mark the beginning of a government attempt to formalise such activities. But such a move would face practical hurdles that could, surprisingly, include reluctance of leading private security companies to take on duties that the government might want to offload.

Other problems include doubts among senior police officers about the ability of the private sector to give an adequate service and political arguments about taking police activities out of the state's hands.

Reputable security companies believe that the opportunities created in a fast growing sector are leading to an influx of "cowboy" operators whose disreputable, or incompetent activities, reflect badly on the entire industry.

The UK market for private security, already one of Europe's biggest, is growing with the introduction of private management of prisons and rising demands for security guards at shopping malls, industrial estates and other locations.

According to a study last month for the Economic and Social Research Council, the sector employs at least 162,000 people. This would make the sector as big in employment terms as the police. The core security guarding market is worth about £1bn a year.

Information is short because the industry lacks statutory regulation. Anyone with a van, a mobile telephone and a convincing-looking dog can set up a security company. Cynics add that a criminal record is no impediment.

Reputable companies deplore the absence of regulation. The British Security Industries Association, which represents most of the leading operators, senior police officers and opposition MPs all support statutory regulation and licensing of security companies.

The government has rejected such demands for action. It prefers self-regulation and has told industry representatives that licensing would favour bigger companies and so be anti-competitive. It is not convinced that "cowboys" are more prevalent than in any other sector. Leaders of the industry may, however, insist on regulation to control rogue operators as the price for taking on any police duties.

Even with statutory controls, some security company managers share chief constables' reservations about the implications of transferring police work to the private sector. Mr David Dickinson, director of security company Group 4, told the Association of Chief Police Officers last month that the role of security companies must be confined to crime prevention and not stray into the area of law enforcement. He fears that the public would fail to understand a blurring of the edges between companies such as his and the police.

Setting a limit on the role of security companies would, however, allow scope for imaginative developments in joint working between the public and private sectors. Some police forces, Mr Dickinson says, already employ private security companies to guard their own headquarters. He suggests the police should consider whether to spend some of their budgets on buying in "preventative uniformed patrols in the community under the total control of the chief constable".

Chief constables' control is likely to emerge as a central theme in the police service's response to any government attempts to introduce a greater private role in policing.

The service is unhappy about the prospect of two-tier policing – it holds passionately to the view that whenever a police officer walks along a street he or she might be confronted with any number of emergencies, and must be trained and equipped for them all. But if the private security industry won statutory regulation, police confidence in it would increase. That would put pressure on chief constables to become managers of a "mixed economy" of policing.

They could, in a pattern becoming increasingly familiar in the public sector, retain overall responsibility for activities carried out under contract by other agencies. There is a precedent for this: chief constables are now responsible for the management of large numbers of civilian staff recruited in recent years to relieve police officers of behind-the-scenes support duties such as running control rooms.

A "mixed economy" approach was proposed last month by an independent inquiry into police roles and responsibilities initiated by two academic bodies, the Police Foundation and the Policy Studies Institute. It raised the possibility of street patrols run by local authorities, community groups or private security companies, operating under the direction of the regular police. Such support groups could, suggested the inquiry, relieve the police of administrative burdens such as delivering summonses or making inquiries about under-age drinking in public houses.

The inquiry's ideas have alarmed the Police Federation, which represents the rank and file. "It is estimated that the police service costs about 31p a day per head of population," says Mr Fred Broughton, its chairman. "By raising public spending by a few pence per head, it would be possible to put more police officers on the streets. They would be real, fully-trained officers capable of dealing with everything that arose, unlike the alternative patrols that are being considered."

The federation scorns the idea of substituting police officers with lower-cost replacements; but there are fears in Britain's police stations that some chief constables, who are about to become more accountable under fixed-term contracts, may be attracted to it as a means of trying to meet and finance public demand for more street patrols.

As last week's reaction to the Wandsworth plan showed, transferring police duties to other providers generates ethical and constitutional concerns. Such worries have not been a obstacle before in the government's law and order policies. The introduction of private prison management was not halted by the argument of opponents that only state employees, untouched by the profit motive, should be allowed to deprive individuals of their liberty.

Having failed to deflect ministers on that issue, critics could not with equal seriousness claim that it would be an outrage for charities to become responsible for lost dogs, or private security companies or motoring organisations to escort wide loads along motorways.

But the argument does not end there. Those activities most suited to contracting out – from lost property to routine patrols – are the ones that bring ordinary citizens into most contact with the police service. Take them away, and where does it leave the regular, front-line police? As an increasingly remote, heavily armed, centrally deployed force, say critics – some of them in the police service itself.

This raises big constitutional questions. Yet they may not be heard amid the clamour from a public that wants more visible protection from burglars, car thieves and "muggers," and is not particularly concerned whether the protectors wear the uniforms of the police, Securicor or the local council.

Angus Foster on a Brazilian habit that is part inducement, part consideration, part bribe

Just junk the jeito

There is a word newcomers to Brazil learn quickly. It makes them flinch at first; later it triggers a bead of sweat, and then it brings on a nervous laugh. It is used sparingly, even by long-term residents, because they sense its ability to strip away an outsider's defences and launch him, naked, into the cauldron of Brazilian culture.

The word is *jeito* and, like a formula for poison it is harmless unless you know what it means. It is a way or scheme to get around (rather than confront) a problem in Brazil. It can involve exchanging favours or outright bribery. And in Brazil there are a lot of problems.

Assume you have arrived in Brazil and want a telephone line. If you approach the local telephone company, its officials will merely laugh. The waiting list is a couple of years long, by which time your posting will have ended. Your options are to keep your sanctity but go without a telephone or, you are told, there is a *jeito* – you can "buy" a black market line for about $3,000.

The next problem is to get the service working. Your local telephone company is happy to activate the line – for the payment of a small *jeito*. But to install the actual telephone, the best *jeito* is to use a private company, which usually means an off-duty phone engineer.

Now comes the tricky bit. The off-duty engineer who installed the telephone is not allowed to link your telephone to the activated line. The only way to get it linked is to call another, on-duty engineer and to pay him a *jeito* to go off duty momentarily while he overlooks the fact that your line is black market and makes the connection.

If this scenario seems unlikely, let's just say it happened to a friend.

The *jeito* operates in almost every field of Brazilian life and often crosses into nepotism or corruption. Those in government dispense *jeitos* to friends and relatives, helping them find ways around the bureaucracy and to get jobs. Some argue Brazil's entire political system, based on regional alliances, would be paralysed without the flows of favour and patronage between the capital, Brasilia, and the provinces.

No one knows how it started.

Some say the *jeito* was travelling below deck when the Portuguese arrived nearly 500 years ago. Others argue it grew up in Brazil, where circumventing colonial law was crucial, given the size of the country and the many weeks it took central government to relay decisions. A third school sees the *jeito* as a Brazilian cultural icon, a fusion of the Portuguese and west African affinity for compromise.

The *jeito* may appear harmless abroad, from where it can be shrugged off as an endearing, faintly exotic aspect of Brazilian life. And it has many supporters in Brazil who argue it would be a less interesting country if it emulated northern European morality. Even the most sanctimonious foreigner soon learns that *jeitos* seem less naughty the more they are used.

But the time has come to abolish the *jeito*. This is partly because it is out of date. Since Brazil's return to democracy 10 years ago, the population has been demanding more transparency from public officials. Both the front-running candidates for this year's presidential elections have, for example, had to dump their running mates over allegations that they used one *jeito* too many for personal profit while members of the senate.

But the main reason to ban the *jeito* is that it, together with high inflation, forms part of a way of life which has corroded Brazil's social fabric for decades. Indeed, one particular *jeito* can be seen as a leading cause of Brazilian inflation.

Successive generations of politicians abrogated their responsibility to control spending and price rises. They did so by, among others, trying to protect wages through the *jeito* of raising pay in line with inflation indices. As the rise in the indices accelerated, increases in wages and other prices became bigger and more frequent, exacerbating the inflationary mess. In June this year, the monthly inflation rate exceeded 50 per cent.

Brazil is now tackling its inflationary legacy. A new currency launched in July, called the Real and linked to the US dollar, has led to a sharp drop in price rises.

Much remains to be done, including overhauls of the tax and social security systems. But the start has been made, and Brazil finally appears ready to cast off the stigma of being the last large Latin American economy to bring inflation under control.

It will only succeed, however, if it sticks to the difficult task of limiting spending and punishing corruption. It must also refrain from the temptation to get round today's problems by finding another *jeito*.

OBSERVER

Hanson goes exploring

■ Rarely does a humble hack get to fly in one of Lord Hanson's helicopter fleet.

But yesterday Observer temporarily joined the elite, visiting Air Hanson's swish base in Surrey, for the launch of a new and rather special McDonnell Douglas chopper.

A technologically impressive beast, the MD Explorer will be distributed in the UK and elsewhere by Air Hanson. Its big novelty is the lack of a tail-rotor. Given that 20 per cent of helicopter accidents are caused by the tail-rotor, which is also a very noisy component, it should be a big selling point.

With no tail-rotor, US police and military can sneak up on the bad guys, at a price-they-like, with running costs of $375 per hour against a minimum of $500 for tail-rotor competitors. How come nobody has thought of it before?

Ah, but they have: "I saw some photos of a Russian trial version back in the 70's, but nothing since then," says an MD executive. Of course, the proof of the pudding is in the eating.

Sadly, Observer can't tell you just *how* quiet the Explorer is since yesterday's chopper flight was grounded, thanks to a missing vital part.

However, McDonnell Douglas has promised Hanson that the rogue item will be found in time for next week's international air show at Farnborough.

Tipperary

■ It gives a lift to any theatre when the prime minister turns up in the audience. So it was on Wednesday when John Major, accompanied by wife Norma, slipped into the National Youth Theatre's revival of Joan Littlewood's *Oh What a Lovely War*.

A symbolic choice, perhaps, given the coincidence with the IRA's ceasefire. Littlewood's piece begins with a flush of nationalism at the outbreak of the first world war, but ends with a popular rejection of war of any kind.

Pearly king

■ Is an interesting culture change imminent at Time magazine, the weekly flagship of the Time Warner empire?

Norman Pearlstine, former executive editor of the Wall Street Journal, is being tipped by the New York Times to take over as editor in chief of Time Inc, the parent of Time, Fortune, Sports Illustrated, and People.

Pearlstine has interesting social and personal connections. His third wife, Nancy Friday, has made a career from writing up (anonymous) sexual fantasies. Her *My Secret Garden* (1979) regaled us with women's imaginings, while

'Is this to be a permanent cessation of balaclava, Eamonn?'

Men in Love (1980) crossed the gender divide for the same purpose.

Francis Dealy, in his entertaining book *The Power and The Money, Inside the Wall Street Journal*, quotes Pearlstine saying to him that Nancy had "emotionally emancipated" him.

Pearlstine is far too glitzy to be mistaken for another Henry Luce. Even so, Time hacks might welcome his arrival if he puts a stop to the long running rumours that the mags are up for sale.

Indeed, Dealy reckons that when Pearlstine took over as managing editor of the WSJ, in the first 10 months he incurred $11.4m in unexpected salary costs, by hiring 143 new staff instead of the budgeted 36.

Dust off those CVs...

Peace n' pizza

■ You can't fault the Italians for entrepreneurial spirit. With the ink hardly dry on the IRA's ceasefire announcement, the FT's Milan office was rung up yesterday by one would-be fast food magnate.

The caller, currently employed by a Japanese bank, was wondering how she and her husband, who works in a TV repair shop, should go about setting themselves up in Belfast to sell *focaccia* – a northern Italian pizza-like dough – to the peaceloving inhabitants.

As it turns out, Sonia Paiatto and Marco Di Fiore had already decided Belfast was the place for them, ceasefire or no ceasefire, and were preparing to chuck in their jobs and indulge their passion for cookery. "We just went there on holiday and loved it," explained Paiatto.

Native's return

■ Love him or hate him, Ian Kerr, who penned L'Eminence Noire for the pages of International Financing Review, the bible of the Euromarkets, brought a biting wit to the antics of friend and foe.

Since April, when he was lured to rival Euroweek, there has been something of a void at the staggeringly expensive (£2,000 plus per annum) yellow-jacketed weekly.

Re-enter Peter Krijgsman, 39, former editor-in-chief of IFR, who left last autumn, and has now been rehired as a humble tittle-tattle recycler. Unlike Kerr, who had headed fixed income research at Kidder Peabody, Krijgsman has never seen the market from the inside. A some-time diarist at Accountancy Age – "funnier than it sounds" – he has his contacts however, not least Kerr's enemies, from whom he would hear faithfully every Monday morning at IFR.

But he will have a hard act to follow in the bitchiness and snobbery stakes, not to mention matching Kerr's penchant for coining nicknames which stick. CS First Boston's Alan "Weetabix" Wheat, his spouse Mrs Shredded Wheat, and Christopher Robin (the gangly new London boss of UBS David Robbins) are just a few of the big cheeses who have been rechristened by Kerr.

Even so, if Kriegelburger focuses on the current movers and shakers, rather than yesterday's men, he should be able to mine a tolerably untapped seam.

Veggie-burghers

■ Norwegian judges have deemed it insulting to call a police officer an onion, fining a motorist NKr4,000 for having done so.

Maybe the criminal should have opted for safety and simply called the officer a Swede?

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FINANCIAL TIMES
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Japanese group to set up Chinese parts centre

Toyota signals plan to build vehicles in China

By Michiyo Nakamoto in Tokyo

Toyota, Japan's largest carmaker, yesterday gave the strongest indication yet of its interest in setting up vehicle manufacturing operations in China, announcing that it would establish a support centre for component suppliers there.

The news came as Mr Tatsuro ToyodaToyota's president, flew to Beijing with other senior executives of the company on a five-day tour to strengthen ties with China and investigate the market.

Mr Toyoda, will discuss the plan for the support centre with the Chinese government and local vehicle makers.

The centre is being set up in response to calls by the Chinese government for foreign manufacturers to help the country develop its vehicle parts industry.

In July, China announced a moratorium on all new vehicle manufacturing facilities until 1996 and invited foreign companies to extend support in building up the components industry.

Tatsuro Toyoda: strengthening Toyota's ties with China

The establishment of a supplier support centre, where Toyota engineers would extend technical assistance to parts suppliers, is not in itself a big commitment by Toyota to the Chinese market. However, the move reflects Toyota's interest in setting up manufacturing facilities in China once the moratorium has been lifted.

"It is a step looking towards the future and our ambitions for the Chinese market," a Toyota representative said yesterday. The company is considering setting up a joint venture manufacturing facility in China, he said.

Toyota sold about 50,000 vehicles in China last year, or a quarter of all Japanese vehicle sales in China and just over 3 per cent of the Chinese market of 1.5m.

The Japanese company provides technical assistance to a bus manufacturer in Shenyang and an affiliate, Daihatsu Motor, extends similar help to a passenger carmaker in Tianjin.

Toyota has been slow to express an interest in manufacturing in China. It was not among a handful of foreign car companies – including Peugeot, Volkswagen and Chrysler – which set up joint ventures in China while such investment was still open.

However, Toyota says it now feels the market has potential for local manufacturing.

US seeks to sharpen rules on risk from derivatives

By George Graham in Washington

US bank regulators are proposing new capital adequacy rules to take account of banks' exposure to risk from their holdings of derivatives, which are coming under increasing scrutiny in Washington.

The Office of the Comptroller of the Currency, which regulates nationally chartered banks, yesterday published the new rules for a two month comment period, and the Federal Reserve Board has also proposed similar rules.

An OCC official described the proposals as a "refinement", but said they could require banks to hold more capital to offset the risk of some of their holdings of derivatives, such as futures or mortgage-backed securities, whose return is derived from another security or index.

The new rules would change the formula which estimates exposure, by converting the notional principal amount of derivatives contracts into the equivalent of loan exposure, and would sharply increase the risk weighting for contracts linked to equities, precious metals other than gold, and commodities.

Earlier international standards for bank capital adequacy ratios did not explicitly cover this kind of derivative contract. But many national bank supervisors, including the US, have informally allowed banks, when calculating exposure, to use the risk weighting applied to exchange rate contracts, which is 1 per cent for less than one year and 5 per cent for longer maturities.

Under the new rules, gold would still use this formula, because its volatility is estimated to be comparable to foreign exchange contracts, but other contracts would have a heavier risk weighting.

In calculating risk, equity-linked contracts would be weighted at 6 per cent of the notional principal for maturities under one year, 8 per cent for one to five years and 10 per cent for longer terms. Other precious metals would be weighted at 7 per cent for maturities up to five years and 8 per cent for longer. Other commodities would be weighted at 12 per cent up to five years, and 15 per cent for longer.

World stock prices fall on worries over interest rates

By Philip Coggan, Economics Correspondent

Pessimism on the future direction of interest rates affected world financial markets yesterday, in the wake of poor price data in the US, strong output figures from Germany and a Bundesbank decision to leave official rates unchanged.

Bond and equity prices fell in Germany, while in the US, long Treasury bond prices and the Dow Jones Industrial Average drifted lower in early trading. In London, the FT-SE 100 Index closed 34.8 points down at 3,216.5.

Equity markets started 1994 in bullish mood with many investors believing that interest rates had further to fall, particularly in Europe. But the Federal Reserve's five increases in interest rates, allied to the unexpectedly strong rebound in European economies, has gradually made investors less optimistic about the scope for further European cuts.

Some countries, such as Sweden and Italy, have been forced to raise rates and in others, such as Britain, it is clear that the next move in rates will be upwards.

Most analysts had expected the Bundesbank council at its fortnightly meeting yesterday to leave official rates, including the repo rate, unchanged. Nevertheless, figures showing that German industrial production had risen by a monthly 2.2 per cent in July reinforced the views of those who believe that German rates are very close to their bottom.

The Frankfurt Dax equity market index closed only 12.05 points down at 2,200.80, but dropped further in after-hours trading once the August US National Association of Purchasing Management data were released. Although those showed a fall in the overall index, indicating some slowing of the pace of economic growth, the prices component rose to its highest level since August 1988.

Any sign of future US inflation raises fears that the Federal Reserve will push for further increases in interest rates.

By 1pm New York time, the Dow Jones Industrial Average had fallen 10.69 to 3,902.73. Combined with a fall in Treasury bond prices, the result was downward pressure on the dollar, which fell against both the yen and the D-Mark in European trading.

The early fall in the Dow also depressed European stock markets, with the CAC 40 index closing 34.17 points lower at 2,034.91. The French market is still suffering from the decision by four French banks this week to increase their lending rates.

London Stock Exchange, Page 31
World stocks, Page 38

THE LEX COLUMN

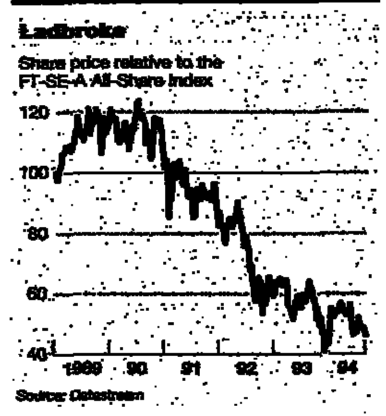
Tiny escapes again

One cannot fail to admire Mr Tiny Rowland's ability to prevail in boardroom battles. Nevertheless, his defeat of the campaign to oust him as one of Lonrho's chief executives leaves outside shareholders in an uncomfortable position. The company now faces the possibility of a long power struggle between two rival chief executives. Mr Dieter Bock, the other chief executive, may hope that Mr Rowland will retire after a decent interval. But there can be no guarantee that, having won yesterday's skirmish, he will now vacate the battlefield.

Mr Bock himself stands accused of poor judgment by mounting his attack against Mr Rowland at this time. He clearly over-estimated his chances of winning. It would have been better to wait two months until the balance of the board had shifted further in his favour. It is hard to see how the two men can now work together.

The main damage to shareholders is that Lonrho's corporate strategy will remain unresolved. There is significant potential to enhance shareholder value by streamlining Lonrho's ragbag of businesses. Minority stakes in some of the African operations could be floated to reveal the full value on the group's assets. Alternatively, businesses could be completely demerged or sold to trade buyers. Some analysts believe the group's break-up value is 180p-200p a share, compared with last night's close of 143p. Mr Bock, a trader of assets at heart, seems keen to embark on some such programme. But so long as Mr Rowland still wields power at Lonrho, radical restructuring looks unlikely.

FT-SE Index: 3216.5 (-34.8)



Source: Datastream

logic of its marriage to gaming within the Ladbroke empire. The group's modest move back into casinos could create additional synergies. But neither hotels nor gaming is likely to deliver the kind of earnings growth the stock market was anticipating earlier in the year.

This might explain Ladbroke's decision to invest in the Texas DIY chain rather than look for a quick sale. Even modest margin improvements on Texas's £700m annual sales would add pep to group profits. Optimism on that score – and the prospects for early realisation of the remaining £600m property portfolio – should limit the downside for the shares. But it is difficult to see that Ladbroke brings much to retailing in the longer term. The sooner Ladbroke places its bets firmly on hotels and leisure the better.

Ladbroke

The warm glow of approval for Ladbroke's new open management style has already dissipated. The shares have lost all the ground gained early in the year following Mr Cyril Stein's decision to cut his links with the group he created. It is not that Mr Peter George, the chief executive, has drifted back into the bad old ways. Yesterday's half-year figures were a model of clarity. The trouble is that a clear view of trading prospects is hardly uplifting.

The performance of Hilton hotels is especially disappointing. Even allowing for economic recovery in continental Europe, it will be a long time before Ladbroke sees a decent return on the £1.8bn capital tied up in that business. That is not to deny the long-term attractions of hotels, or the

Reckitt & Colman

Since the European rationalisation programme announced by Reckitt & Colman yesterday is its second such initiative in under five years it is debatable how "exceptional" the related £56m provision really is. The fact that the company was vague on details only added to the impression that it was part of an on-going process. True, the previous operation was carried out before the group acquired Boyle-Midway in 1990. But that suggests it has taken the group rather a long time to identify opportunities to rationalise manufacturing and distribution. It is tempting to conclude that the programme is a reaction to the group's poor performance in Europe.

The fall in European profits was disappointing when compared with Unilever's results, and though much can be put down to recession, the signs of switching to own-label products raise questions about the eventual impact of economic recovery. In North America consumers are not returning to previous spending patterns in a hurry while competition in the supermarkets remains intense. That in turn throws doubt on Reckitt's confidence that it can continue to increase margins which have now topped 16 per cent.

Even if it continues to grow well in Latin America and Asia the group outlook is dull unless it can restart sales growth in the mature economies. Against this background it would be surprising if Reckitt were not looking at large potential acquisitions like Eastman Kodak's household products business. But only the chance that Reckitt itself might become a target justifies the stock's small premium rating compared to Unilever.

Body Shop

The much-heralded US article on the Body Shop contained no shockers. The main categories of criticism had already been leaked. True, a lively debate over whether the detailed charges are accurate looks set to rage for some time. But the City has come to the conclusion that the criticism will have precious little impact on the business. A few so-called ethical shareholders may expect purity from the Body Shop. But most do not. If ethical investors sell out, others will pick up their shares at a bargain.

The City will only worry if Body Shop's image is so tarnished that customers stop buying its products. So far, it has taken the view that they will not. Squabbles with franchisees and a few shampoo spillages are unlikely to turn people away from Body Shop. Most customers are attracted by its bright colours and powerful aromas.

This is not to say that Body Shop cannot learn lessons from the saga. In a moment of pique, Mr Gordon Roddick, who with his wife Anita founded the Body Shop, said that maybe they should "no longer even try to be remotely ethical". Reflection will show that this is not the lesson. Companies, like individuals, should behave ethically, though the exact definition of such behaviour is open to debate. The lesson is rather one of presentation. Those who proclaim their virtue as energetically as the Body Shop has leave themselves wide open to criticism if they make the slightest slip.

Media rules

Continued from Page 1

other it needs to safeguard cultural pluralism and diversity. Even if the Commission succeeds in winning support for draft legislation, it would still be up to member states to decide whether to proceed with a new EU directive. The European Parliament has, however, thrown its weight behind new EU rules.

US and N Korea arrange new talks

Continued from Page 1

The talks are a preparatory step to the resumption of high-level bilateral negotiations, which will begin on September 23 in Geneva and are intended to achieve a final settlement of the North Korean nuclear dispute.

South Korean officials expressed concern that North Korea had already won a diplomatic victory by persuading the US to hold discussions about the establishment of relations in the North Korean capital. The opening of liaison offices was used by the US to establish links with China in the early 1970s.

There are signs of increased friction between South Korea and the US on the proposed settlement of the nuclear issue. Some officials in Seoul, worried in case their government is being left out, are criticising the US for rushing towards an agreement with North Korea.

Meanwhile, Mr Kim Pyong-il, stepbrother of Mr Kim Jong-il, said that the latter would shortly take formal power in North Korea, as the official assumption of leadership had been delayed because of an extended mourning period for his father.

FT WEATHER GUIDE

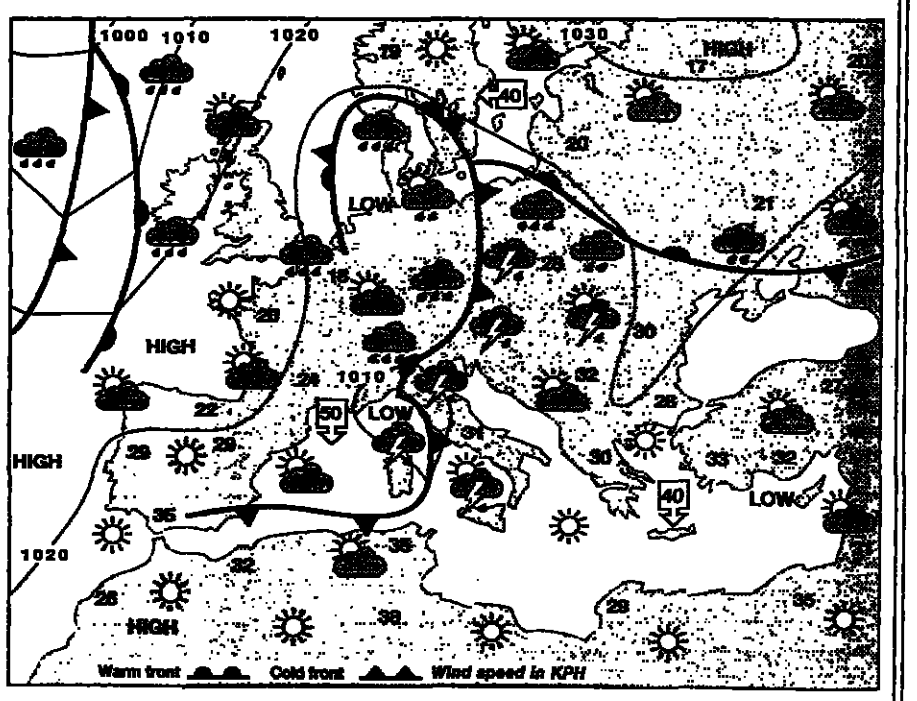
Europe today

Torrential rain followed by frequent showers will move into the Alps, north Italy and south-east France. North and north-west Italy may have floods tonight. More rain and thunder showers will move along a cold front from Austria to southern Scandinavia, spreading to the Baltic states in the afternoon.

England and Scotland will be mostly sunny, but there will be cloud and rain in Ireland. Afternoon temperatures will reach about 30C in the Balkans, Greece, and parts of Turkey.

Five-day forecast

The central Mediterranean will remain unsettled during the weekend, but the heaviest showers will be confined to central Italy. High pressure will bring calm and mild conditions to France, the Low Countries, central Europe and the Alps. The UK will have light rain and sunny intervals. Temperatures in southern Spain will reach 38C.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius							
			Beijing	fair	30	Caracas	fair	29
			Belfast	fair	20	Cardiff	sun	19
Abu Dhabi	sun	42	Belgrade	fair	32	Casablanca	fair	27
Accra	cloudy	28	Berlin	thund	24	Chicago	fair	21
Algiers	sun	32	Bermuda	thund	31	Cologne	fair	21
Amsterdam	rain	18	Bogota	fair	16	Dakar	cloudy	30
Athens	sun	32	Bombay	rain	28	Dallas	cloudy	33
Atlanta	thund	30	Brussels	shower	19	Delhi	fair	35
B. Aires	fair	12	Budapest	fair	32	Dubai	sun	38
B.ham	sun	19	C.hagen	shower	20	Dublin	fair	19
Bangkok	rain	32	Cairo	sun	35	Dubrovnik	sun	30
Barcelona	fair	25	Cape Town	fair	18	Edinburgh	sun	19

Faro	sun	29	Madrid	sun	29	Rangoon	rain	29
Frankfurt	fair	21	Majorca	fair	26	Reykjavik	rain	13
Geneva	shower	18	Malta	sun	31	Rio	fair	29
Gibraltar	sun	28	Manchester	sun	19	Rome	thund	30
Glasgow	sun	20	Manila	shower	32	S. Frsco	fair	21
Hamburg	shower	20	Melbourne	shower	18	Seoul	fair	32
Helsinki	fair	17	Mexico City	cloudy	19	Singapore	shower	32
Hong Kong	cloudy	33	Miami	fair	32	Stockholm	cloudy	19
Honolulu	fair	30	Milan	rain	22	Strasbourg	shower	18
Istanbul	sun	28	Montreal	fair	14	Sydney	fair	24
Jakarta	fair	32	Moscow	fair	16	Tangier	sun	29
Jersey	fair	18	Munich	rain	19	Tel Aviv	sun	32
Karachi	cloudy	31	Nairobi	fair	23	Tokyo	fair	30
Kuwait	sun	44	Naples	thund	31	Toronto	fair	17
L. Angeles	fair	27	Nassau	fair	30	Vancouver	fair	18
Las Palmas	sun	28	New York	sun	21	Venice	thund	27
Lima	cloudy	19	Nice	thund	26	Vienna	cloudy	29
Lisbon	sun	30	Nicosia	fair	37	Warsaw	cloudy	24
London	fair	20	Oslo	rain	15	Washington	fair	20
Lux.bourg	shower	19	Paris	fair	20	Wellington	shower	7
Lyon	shower	20	Perth	fair	18	Winnipeg	fair	19
Madeira	fair	25	Prague	thund	23	Zurich	shower	15

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Adviser

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ILFC International Lease Finance Corporation
US$555,000,000
Export Credit Financing for 10 Airbus Aircraft
Arranger & Underwriter

October 1993
The State of the Netherlands
Advice in connection with the State's investment in KLM
Adviser

December 1993
malaysia
US$122,000,000
Japanese Lease Transaction
Debt Provider & Joint Arranger

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IN BRIEF

Daf's offspring produce growth

Dutch and UK truck companies created out of the collapse of the Daf group last year are increasing their profits and making a first significant investment in a new range.

Leyland Trucks Manufacturing, the UK truck maker says it will spend £25m (\$38.25m) to design and develop a medium-sized truck range. Most of the new vehicles will be for delivery to Daf Trucks, the Dutch truck maker. Page 20 18

Body Shop exposé fails to shock
The long-awaited article that has helped trigger controversy over the image of Body Shop International, the cosmetics and toiletries group, was published yesterday to the bemusement of investors and ethical researchers. Some commentators expressed doubts about the potency of its revelations, while Body Shop flatly rejected its contents. Page 22

Amcor shrugs off competitive markets
Profits at Amcor, the Australian paper and packaging group, rose to A\$336.9m (US\$251m) in the year to June, despite fierce competition. Page 20

Western Mining falls 28%
Western Mining Corporation, the Australian mining group, reported a fall of 27.8 per cent in equity-consolidated profit after tax but before abnormal items to A\$119.7m (US\$89m) in the year to June. Page 20

Net income up at Sandoz
Sandoz, the Swiss pharmaceuticals, nutrition and chemicals group that has just acquired Gerber Food Products of the US, raised net income 2 per cent in the first half to SFr1.01bn (\$760m). Page 19

Canadian banks ahead in third quarter
Canada's two biggest banks, Royal Bank of Canada's and Canadian Imperial Bank of Commerce, posted sharply higher third quarter earnings, driven by strong lending activity, rising fee income, tight expense control and lower loan losses. Page 19

Speculation persists around NBC
Speculation about a possible takeover of the NBC television network continued after a senior NBC executive failed to issue an outright denial that General Electric, NBC's parent group, may sell all or part of the network to Time Warner. Page 19

Telefónica rises at halfway
Telefónica, the state-controlled Spanish telecommunications group and the biggest company on the Madrid stock exchange, lifted first-half consolidated net profits by 4.7 per cent to Pta52bn (\$397m) on the back of increased demand, lower financial charges and increasing international business. Page 19

Rolls Royce lifts profits 29%
Rolls-Royce, the aero engine and industrial power group, yesterday reported a 29 per cent rise in pre-tax profits for the first half of 1994 despite a 14 per cent decline in sales. Page 22

Patchy report from Vickers
Shares in Vickers fell 7p to 188p yesterday after the engineering group, which makes tanks and Rolls-Royce cars, said it was seeing only a patchy recovery. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Lahmeyer	695	+	11
Falls			
Adca Pfd	670	-	25
Deutsche Babck	256.4	-	4.6
Hoechst	362.2	-	5.3
Porsche	805	-	15
Varta	358	-	6

NEW YORK (\$)			
Rises			
Ill. Hsts	11	+	1½
Falls			
AST Research	13⅝	-	4⅝
Actava	11⅝	-	1⅝
Fingerhut	21⅛	-	4⅛
Gap	39⅜	-	3⅝
Natl Semicdt	17⅛	-	1⅛

PARIS (FFr)			
Rises			
Imm France	481.9	+	15.9
Falls			
Bouygues	550	-	26
Credit Foncier	857	-	38
LVMH	867	-	24
UAP	150.2	-	4.8
Union Immob Fr	495	-	17

TOKYO (Yen)			
Rises			
Aoki Corp	499	+	14
Mazda Milling	889	+	29
Tosa Corp	549	+	9
Tonen Corp	397	+	15
Toyo Constn	353	+	18
Falls			
Tokyo Rope	841	-	19

New York prices at 12:30.

LONDON (Pence)			
Rises			
Airsprung	255	+	18
Allen	178	+	11
Ambrgecib	323	+	15
BM Grp	153	+	10
Bluebird Toys	235	+	8
Body Shop	224	+	6
Domestic & Gen	1720	+	60
Lilliput	160	+	66
Page (Michael)	114	+	24½
Rmd Grp	178	+	13
Sanderson Elec	90	+	6
Tottenham Hspr	151	+	7
Williams Hldgs	365	+	10
Falls			
Coats Viyella	221	-	8
Newmark (Louis)	55	-	3
Reckitt & Colman	627	-	25
Rolls-Royce	180	-	8
Unigate	368	-	12
Vickers	188	-	7

ABN Amro goes global with Hoare Govett

By John Gapper in London and Ronald van de Krol in Amsterdam

Hoare Govett, the London stockbroking firm acquired by the Dutch bank ABN Amro two years ago, is to be renamed ABN Amro Hoare Govett as part of the bank's effort to create a global investment banking arm.

ABN Amro, the seventh largest European bank, is to use the name for all its equity broking, fixed income and corporate finance operations around the world provided that it can overcome regulatory hurdles in some countries.

The bank has been building a network of brokers in Europe, including the Irish firm Riada Stockbrokers, CIMO in Milan, and Massonaud-Fontenay-Kervern in Paris. Along with the bank's own broking operations, these may be re-named next year.

The use of both names is similar to the strategy used by Union Bank of Switzerland when it acquired the broker Phillips & Drew in 1989. The London investment banking arm was known as UBS Phillips & Drew until it was re-named UBS this year.

However, ABN Amro's board has decided to extend the Hoare Govett name to fixed income and corporate finance operations because it regards it as a stronger international brand name than its own, which was created in a merger in 1990.

ABN Amro is keen to ensure that Hoare Govett's relations with London merchant banks are not affected by the use of the name for corporate finance activities. The London corporate broking arm will still be known as Hoare Govett.

Mr Rijnhard van Tets, ABN Amro's board member for global investment banking, said the change of name was intended to underline ABN Amro's commitment to the creation of a global network for underwriting and selling securities.

Some 40 per cent of the assets of ABN Amro, which dominates corporate banking in the Netherlands, are outside its home country. It has a strong presence in the US through the La Salle group in Illinois, and European American Bank on Long Island.

ABN Amro started running its equity operations from Hoare Govett in London this year, and is now trying to build up its European corporate finance business. The use of the combined name ABN Amro Hoare Govett could be used for marketing purposes later this year. But it is thought that the bank could have regulatory difficulties in adding Hoare Govett to the name of its US broking arm.

Although the fixed income and corporate finance arms will still be run from Amsterdam, ABN Amro wants to expand corporate finance operations in London. It will provide finance advice and equity underwriting for large European companies. The bank also plans to expand its broking presence in Asia.

BASF's drugs arm turns to German generic market

By Christopher Parkes in Frankfurt and Paul Abrahams in London

BASF, the German chemicals group, is attempting to revive the fortunes of its Knoll pharmaceuticals division by diversifying into non-patented generic drugs in the German market.

A new distribution and marketing company, BASF Generics, will start operating early next year aiming to generate DM100m (\$63.3m) in sales before the end of the decade.

Talks are also under way with potential partners, indicating further likely moves, possibly into other markets.

Knoll recently bought the rights to around 80 out-of-patent drugs from Hexal Pharma, one of Germany's leading generics makers. It also took an option on a further 80 which are expected to be licensed for use in Germany soon.

The creations of BASF Generics is the biggest step yet in a strategy developed at the end of last year, when Knoll reported its first loss, of DM6m on sales of DM2bn. A fall of more than 40 per cent in US earnings was blamed on price pressure from generic competition.

Germany is the fastest-growing and largest market for non-patented generic medicines in Europe, accounting for nearly 40 per cent of the \$4.85bn market, according to a recent report*.

In 1992, generic drugs accounted for about 29 per cent of all German prescriptions, making the sector worth about 22 per cent of all prescription sales at about DM2.67bn.

BASF is the last of Germany's big three chemical groups to gain a foothold in generics.

In March, Bayer spent \$130m on a 28.3 per cent stake in Schein, a privately-owned US group. That followed last year's \$546m purchase by Hoechst of a 51 per cent stake in Copley Pharmaceuticals, another US company.

Earlier this year US group Bristol-Myers Squibb acquired a 25 per cent stake in Azupharma, a German generics subsidiary of Gehe. In June, Merck, the German group, announced its intention to acquire a 51 per cent stake in Amerpharm, an international generics company based in the Netherlands.

**Generic Pharmaceuticals: implications for the global pharmaceuticals industry, Financial Times Business Information; 071 814 9770; £298.*

Lex, Page 16

Ladbroke's gamble

Ashley Ashwood

Peter George, chief executive of Ladbroke, the UK gaming group, bets on a £50m casino deal after an 11 per cent fall in profits. Page 18

Computer shares fall on AST warning

By Louise Kehoe in San Francisco

Computer shares on Wall Street fell yesterday after a profit warning from AST Research, the world's fifth largest personal computer maker, prompted concerns about a possible slowing of growth in PC sales.

At midday yesterday shares in AST had fallen \$4⅞, or 27 per cent, to \$13⅛ after the computer maker said it expected to report a net loss for the current quarter and break-even in the second quarter. Compaq Computer, the PC market leader, was off \$2⅛ at \$35⅛, while Apple Computer shares declined by \$1⅝ to \$35 and IBM was trading at \$67⅞, down from \$68⅛.

AST pointed to delays in new product introductions and recent sharp price cuts by Compaq, IBM and Digital Equipment. "We have encountered several unanticipated product development delays, component constraints and delivery issues," said Mr Safi Qureshey, AST chairman and chief executive.

Price cuts by competitors have forced AST to make "significant price reductions on existing products to protect market share, as well as new product introductions which will have to be priced more aggressively than originally planned", he added.

Just a month ago, AST reported record results for 1994, claiming sales growth of four times the industry average. Revenues for the year were \$2.4bn, up from \$1.4bn, while net income was \$53.5m, or \$1.59 per share, compared with a net loss after restructuring charges of \$53.7m, or \$1.72 per share.

Rumours that Compaq, the PC market leader, was trimming orders for PC components also fuelled concerns about PC sales. Compaq, however, said that changes in component orders were not unusual and did not reflect any change in the company's outlook on the PC market.

Dataquest, a California market research firm, yesterday reiterated its forecast that worldwide PC unit sales will rise 16.3 per cent to 45m units this year.

Andrew Hill reports on 10% fall in Italian computer group's shares

Olivetti offers calm words after its bruising

Mr Corrado Passera, chief executive of Olivetti, yesterday sought to reassure shareholders and the market about the financial and industrial health of the Italian computer group, after a week in which the value of their investment has fallen by nearly 10 per cent.

Mr Passera replied point by point to market rumours which led to a 5 per cent fall in the share price on Wednesday. Olivetti reports half-year results later this month, and the chief executive said the group expected to be able to confirm earlier forecasts that it will break even at the operating level this year. He said revenues had increased by 7 per cent in the first six months.

Olivetti's shares were reasonably stable yesterday, slipping slightly to close at L2,115 against an opening price of L2,123. But that compares with L2,347 at last Wednesday's close, before Digital Equipment, the troubled US computer company, said it had gradually sold its 8 per cent stake in Olivetti on the market during the slack holiday period. In spite of continuing technological and product links, the announcement was taken as an indication that the two companies had abandoned the ambitious partnership set up in 1992. It has also put Olivetti's fragile recovery under the market spotlight.

Mr Passera conceded yesterday that Digital's decision to sell 100m shares into a difficult market created an overhang of Olivetti stock, "which was bound to reflect on the share price". But he pointed out that the way in which the shares were quickly swallowed by the market was "a further demonstration of the strong liquidity of our stock".

Analysts are still puzzled, however, by the delayed reaction to the Digital news, and believe the market may also have taken into account a number of other unsettling elements.

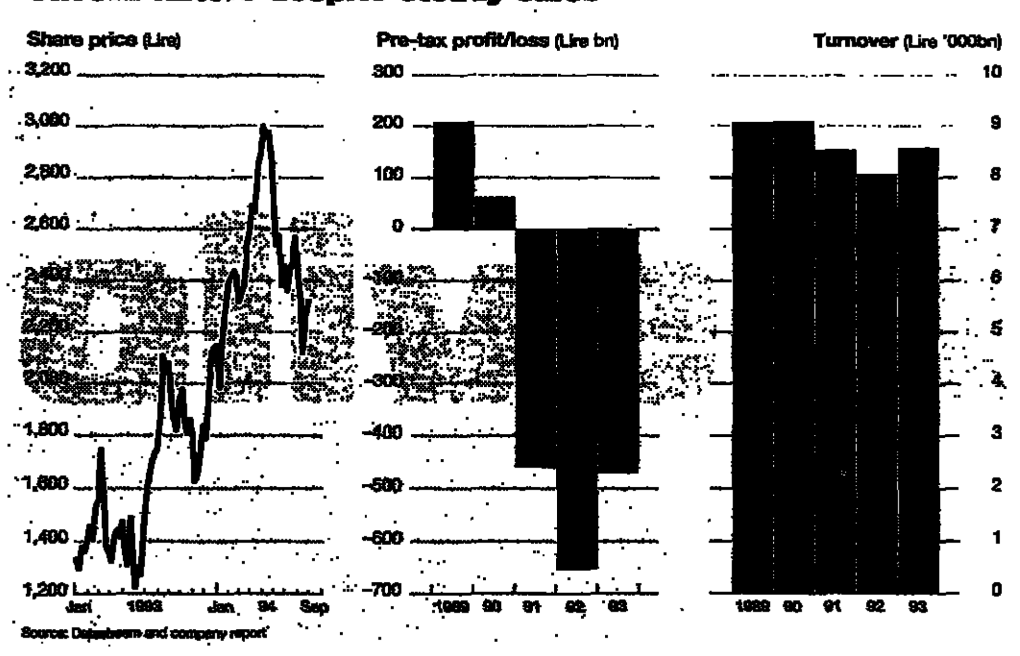
● Personal computer price war in the US. On the same day as the Digital announcement, International Business Machines cut prices in response to Compaq Computer's reductions. Mr Passera pointed out yesterday that PCs represented only 20 per cent of Olivetti's L8,600bn annual turnover (more than 60 per cent of group sales come from the systems and services activities), and that the average price reduction on PCs was about 12 per cent - "not far from what we foresaw in our budget and linked to a drop in component prices and to efficiency improvements".

● Extraordinary losses on share and bond investments. Mr Passera admitted that during 1994 the group's fixed interest portfolio had suffered a drop in value, and that investments – held to cope with unexpected restructuring costs – would suffer a one-off loss.

● Capital raising. Mr Passera said the group was not expecting to increase its capital in order to finance investments in Italy's second cellular telephone network by the Omnitel-Pronto Italia joint venture, of which Olivetti is the main shareholder.

Last year Olivetti lost L465bn, compared with a net loss of L650bn in 1992, but sales increased for the first time since 1990. At the group's annual shareholder meeting in May, Mr Carlo De Benedetti, chairman, said Olivetti was "preparing to reap the benefits of a sweeping structural reorganisation".

Olivetti falters despite steady sales



Source: Datastream and company report

Olivetti is 'preparing to reap the benefits of a sweeping reorganisation' says Mr Carlo De Benedetti, chairman

However, the market's brusque treatment of Olivetti shares this week is a clear indication to Mr De Benedetti of what will happen if he fails to deliver on those promises. He probably feels the market's discontent more than most. In the last week, shares in the De Benedettis' two quoted holding companies – Cir, Olivetti's biggest shareholder, and Cofide, with a large stake in Cir – have themselves declined by 10 per cent and 8 per cent respectively. When the market shakes Olivetti, the whole tree trembles.

Elf blames oil prices for 10% fall

By David Buchan in Paris

Elf Aquitaine, the French oil group, yesterday blamed a 10 per cent drop in first-half net profits, to FFr1.2bn (\$222m) on lower crude oil prices and refining margins and higher financial charges.

Mr Philippe Jaffré, chairman, said uncertainties over the price of oil and the value of the dollar made full-year forecasts difficult. In 1993 Elf showed a FFr1.4bn net profit in the first six months but turned in FFr1.07bn for the full year.

"We are still on course in our strategy to concentrate on our core sectors of oil, chemicals and health, and to improve our competitiveness to the level of other oil majors," he said. After rapid expansion in recent years, Mr Jaffré said the group's goal now was to consolidate its position by cost-cutting and sales of non-core businesses.

Capital spending was 13 per cent lower in the first half, while the French group has cut its stake in the Leuna refinery project in eastern Germany from 100 to 43 per cent. Mr Jaffré said asset sales of FFr1.5bn in the first half were "a bit slower than I had hoped", but he predicted sales of FFr5bn-6bn this year and about the same next year.

Mr Jaffré, who headed the Crédit Agricole bank before he took over Elf last year, said he had halted the five-year rise in debt which now stood at 46 per cent of own funds, against 50 per cent last December.

Elf said profits on chemicals tripled in the first half and its health activities remained stable. Sanofi, its pharmaceuticals and cosmetics subsidiary, reported first-half net earnings of FFr460m, up 0.9 per cent.

Evolutionary approach, Page 20

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Leyland Trucks to invest £25m in new range

By John Griffiths in London

Dutch and UK truck companies created out of the collapse of the Daf group last year are increasing their profits and making a first significant investment in a new range.

Leyland Trucks Manufacturing, the UK truck maker rescued by a management buy-out last year, says it will spend £25m ($38.25m) to design and develop a medium-sized truck range to be built at its Leyland, Lancashire, headquarters.

Most of the new vehicles will be for delivery to Daf Trucks, the Dutch truck maker also revived – with Dutch and Belgian government finance – from the Daf collapse.

The UK company has a long-term contract with the revived Dutch manufacturer under which Daf Trucks sells and services all Leyland-produced trucks in Europe.

The new truck range, to be called the 55 Series, will replace the Dutch-built Daf 1300 and 1700 vehicles, providing Leyland with its first-ever continental sales in the medium, 11-15 tonnes sector of the European truck market.

The announcement came as Daf Trucks reported a net profit for the first half of Fl 39.2m ($22m) on turnover of Fl 924.2m. Daf in March reported a net profit of only Fl 10.8m in a truncated first financial year.

Mr Cor Baan, Daf chairman, told a meeting of the company's 3,654 employees in Eindhoven that the results "are in accordance with the general lines of the business plan and they also reflect the growing confidence in the company".

About a week ago Leyland Trucks' chief executive, Mr John Gilchrist, also reported that the UK company had made a pre-tax profit of £8.4m for its first 11 months to end-April on a turnover of £148.6m.

Daf delivered 7,282 trucks in the first half of the year; 4,607 from the Eindhoven plant and 2,675 comprising 45 Series vehicles from Leyland. Mr Baan said Daf had marginally increased its share of the European truck market over 6 tonnes to 6.8 per cent.

Montedison simplifies Finagro investment

By Andrew Hill in Milan

Montedison, the Italian industrial conglomerate, plans to take direct control of Eridania Béghin-Say, its agro-industrial subsidiary, by absorbing Finanziaria Agroindustriale, the vehicle for the group's Eridania shares.

The merger will further simplify the structure of the sprawling empire inherited by the new board of Ferruzzi Finanziaria (Ferfin), Montedison's parent, following last year's near-collapse of the group. The structure contains some 1,800 companies, many of them dormant investment vehicles.

Finagro is quoted on the Milan stock exchange, but nearly 95 per cent of its shares are owned by Montedison or Ferfin. It controls just under 50 per cent of Eridania, which is quoted in France and Italy, but some 63 per cent of the voting rights.

If the operation is approved at a special Montedison shareholder meeting in October, Finagro's few remaining shareholders will be offered Montedison shares in exchange for their holdings. Montedison also plans to absorb four tiny financial subsidiaries which house part of the group's Finagro stake.

East German energy assets sold

By Judy Dempsey in Berlin

Eastern Germany's largest electricity utility and its biggest brown coal field have been sold to a consortium headed by RWE Energie, the German utility, the Treuhand privatisation agency announced yesterday.

The sale, which will be officially sealed next week, paves the way for a DM41bn ($27.3bn) investment programme by west Germany utilities in eastern Germany's energy sector. It also secures a future for brown coal, despite the environmental costs, and particularly in an election year when unemployment in eastern Germany is one of the key issues.

Although the Treuhand will not confirm the selling price until next week, energy officials yesterday said RWE, PreussenElektra and Bayernwerk paid about DM8bn for Veag, eastern Germany's largest utility. The former state utility, which enjoyed a monopoly under the former communist regime, had a workforce of 29,000. That has been reduced to 14,500, and is expected to fall further.

A consortium led by Rheinbraun, RWE's brown coal offshoot, and including PreussenElektra and Bayernwerk, bought the Laubag brown coal fields for an initial payment of DM2.1bn and a commitment to invest more than DM6bn over the next 20 years.

Laubag, which now employs fewer than 12,000, compared with more than 60,000 before German unification, will fuel most of Veag's 12,300-megawatt capacity. Annual coal production will total about 55m tonnes, which is considered the minimum for the fields' economic viability.

However, the long-term economic prospects for Laubag and Veag will depend on the consortia's ability to withstand increasing pressure from the expanding gas market and falling energy consumption in eastern Germany. Gas is quickly becoming a substitute for brown coal.

Mercedes-Benz unveils R&D strategy

By Kevin Done, Motor Industry Correspondent, in Hanover

Mercedes-Benz, the world's leading truck maker, is planning to invest more than DM5bn ($3.16bn) in the research and development of new commercial vehicles between 1994 to 1998, Mr Helmut Werner, chief executive, said yesterday.

The group will launch two van ranges in Europe next year, and introduce a new-generation heavy truck range in 1996.

Mercedes-Benz is embarking on an aggressive expansion of its light commercial vehicle operations in Europe, with the aim of increasing its van production capacity by between 40 and 50 per cent during the next two years, to around 150,000 a year from 100,000 in 1994.

It also plans to internationalise its light commercial vehicle operations. It wants to start producing in South America, Mr Bernd Gottschalk, managing director of the commercial vehicle division, said yesterday.

The new T1 medium-weight van range (2.5-4.6 tonnes gross vehicle weight) to be launched in Europe next year will also be produced in Argentina, starting in 1996.

In Europe, the capacity for this vehicle is being increased from around 75,000 to 100,000, competing with rivals such as the Ford Transit and the Volkswagen Transporter.

In Argentina, Mercedes-Benz will build toward capacity of between 20,000 and 25,000 units a year, enough to supply the Brazilian market as well.

The group has begun negotiations on two ambitious joint ventures in China for the production of heavy trucks and buses and coaches, said Mr Werner.

It has entered a feasibility study with Yangzhou Motor Coach Manufacturing (YMC), the biggest Chinese bus and coach producer, for the formation of a joint venture. The target here will be the production of up to 12,000 bus chassis and 6,000 large coaches a year.

Such an operation would exceed Mercedes-Benz's existing Brazilian bus and coach operations, which produced 14,600 vehicles last year. It would also be twice as big as its European bus and coach operations in Germany and Turkey.

Separately, it is investigating the formation of a joint venture to produce heavy trucks (above 15 tonnes) in China with its current licensee partner, Norinco.

Volvo to take over German bus maker

By Kevin Done

Volvo, the Swedish car and commercial vehicle maker, is taking over Drögmöller, the German bus manufacturer, in a move which accelerates the rapid concentration of the European bus industry.

Mr Björn Larsson, president of Volvo Bus, said the takeover of Drögmöller, a maker of luxury tourist coaches with a turnover last year of DM56m ($36m) and a workforce of 250, was an important step in the Swedish group's effort to break into the German market, which is dominated by Mercedes-Benz and MAN, the domestic German commercial vehicle makers.

The big European truck and bus makers are moving quickly to consolidate their hold on the small, and hitherto independent, bus and coach body builders in Europe, in order to guarantee the outlets for their chassis and drivelines (engines and gearboxes).

The Volvo acquisition is the latest in a flurry of recent deals, most notably Mercedes-Benz's takeover of Kässbohrer, the German coach maker which markets its products under the Setra brandname.

In recent days Scania, the Swedish truck and bus maker, has taken over DAB, a Danish body builder, while Volvo agreed the takeover of Aabenraa, another Danish bus body builder, from Kässbohrer, shortly before the German group was itself acquired by Mercedes-Benz. Separately Berkhof, the Dutch bus and coach maker has taken over its smaller, troubled Belgian rival Jonckheere.

Volvo had tried for two years to break into the German coach market, using Berkhof bodies on its own chassis but with little success, said Mr Larsson. Drögmöller was the last independent German coach builder and offered the last acquisition opportunity.

Volvo was aiming to increase its share of the German bus and coach market to more than 5 per cent in the next two to three years from less than 1 per cent at present, said Mr Larsson.

Reckitt cautious after weak result

By Roderick Oram, Consumer Industries Editor

Shares in Reckitt & Colman fell 25p to 627p yesterday after the UK household products and toiletries group delivered slightly weaker than expected interim pre-tax profits of £123.3m ($189m) and a cautious trading statement.

"The tough competitive and economic conditions which affected the group's performance in the first-half year persist and are unlikely to improve in the second half," it said.

New products in core brands such as Harpic lavatory cleaner helped compensate for flat demand in Europe and North America, Reckitt said.

Economic growth "will take a while to filter through to our consumer products," said Mr Vernon Sankey, chief executive.

Confident of its brand strengths and outlook, Reckitt raised its interim dividend by 7.8 per cent to 6.95p a share. Fully diluted earnings were 21.8p per share against 24.63p. Adjusted for exceptional items they were 24.9p against 23.7p.

The pre-tax profits of £123.3m for the six months to July 2, down from £143.6m a year earlier, included a £56m charge for rationalising Reckitt's European operations and a £30m gain from the sale of its European pigment business in March.

Lex, Page 16

Ladbroke buys London casinos

Ladbroke Group yesterday made a £50m ($76m) bet on the future of London casinos, returning to the tables after a 15-year absence, writes Peggy Hollinger in London. The purchase of Maxim's, Golden Horseshoe and Charlie Chester's marks the first step in Ladbroke's strategy to increase its presence in the global gaming business.

The deal is subject to approval from the UK Gaming Board.

News of the acquisition was accompanied by the announcement of an 11 per cent fall in interim profits before exceptional items to £51.3m. Earnings before exceptionals were 18 per cent lower at 2.96p.

Ares-Serono suffers 39% decline

By Ian Rodger in Zurich

Ares-Serono, the Geneva-based biotechnology drugs group, has reported another sharp fall in profits in the second quarter. Net income from continuing operations fell 39 per cent to $14.4m.

The group, which develops hormones for stimulating human fertility and beta interferon-based drugs for multiple sclerosis and other diseases, has continued to step up its research and development spending in spite of weaker overall sales.

Sales in the second quarter were down 3 per cent to $168.2m, as a 50 per cent slide in sales in Italy offset substantial gains elsewhere. Italy accounts for about a fifth of group sales, and a few important Ares products have been removed from the list of those the government will pay for.

Meanwhile, R&D spending jumped 38.6 per cent in the second quarter to $37.3m.

In the first half, sales were down 5 per cent to $314.7m and net income from continuing operations tumbled a third to $28.05m. The group took a $9.6m charge on the sale of its diagnostics division in the second quarter.

Bidders line up for Canadian insurance unit

By Robert Gibbens in Montreal

Canadian Imperial Bank of Commerce and Great-West Life are believed top contenders for Confederation Life's domestic group life and health business.

The successful bidder was expected to be announced by Confederation's liquidator Peat Marwick Thorne. Confederation's domestic group business generated premium income of C$1bn (US$700) last year and could fetch up to C$100m.

Metropolitan Life was also a bidder, but industry sources said it was not likely to win.

Great-West, controlled by Power Corp of Canada, bought Confederation's US group business just after Confederation was seized by federation regulators on August 11.

Privatised Austrian engineer ahead

By Ian Rodger

VA Technologie, the Austrian plant engineering group privatised and floated in May, has reported first-half net income of Sch286m ($26m), up 68 per cent year-on-year.

Pre-tax profit was 50 per cent higher at Sch307m on sales of Sch10.2bn, up 40 per cent. New orders were 10 per cent ahead to Sch17.1bn and the order backlog at end-June stood at Sch56.8bn, 5 per cent higher.

The group said the largest part of its turnover would be achieved in the second half, and forecast higher full-year profits. "This will enable a shareholder-friendly dividend policy," it said.

The Austrian government sold 51 per cent of the shares in VA Tech, formerly part of the Austrian Industries combine, in May, raising Sch6.9bn.

SKANDIA INSURANCE COMPANY LTD

INTERIM REPORT FOR THE PERIOD JANUARY 1 – JUNE 30, 1994

- Gross premium income rose by 35 per cent during the first half of 1994, to MSEK 27,315. The improvement is entirely attributable to the unit linked and life assurance operations, whose premium volume grew by 106 per cent.
- The insurance result for the group during the first half of 1994 amounted to MSEK 378, an increase of 31 per cent compared with the same period a year ago.
- The operating result, before adjusting the value of bonds to the lower of cost or market value, amounted to MSEK 529 (572).
- Net asset value on June 30, 1994, amounted to MSEK 15,379, or SEK 150 per share.
- The rights issue approved by the Annual General Meeting contributed to an inflow of capital totalling MSEK 2,705 net. The number of shares increased to 102,354,252 as a result of the rights issue.
- At the Annual General Meeting in April 1994, the decision was made to ease Skandia's voting rights limitation in the Articles of Association. Now, no one may vote for more than five per cent of the shares represented at a Shareholders' Meeting.
- SkandiaBanken will begin operating in October 1994 and will focus primarily on deposits and other banking services for individuals.

Skandia is an international corporation engaged in insurance and financial services, with its home market in the Nordic countries. Operations are conducted in 23 countries in Europe, Asia, and North and South America. Skandia's shares are listed on the stock exchanges in Stockholm, Oslo, Copenhagen and London.

A complete interim report is available upon request from Skandia, Information Department, S-103 50 Stockholm. Tel. +46-8-788 1000.

SUMMARY OF RESULTS

MSEK	1994 6 mos	1993 6 mos
Premium income, gross	27,315	20,251
Non-life insurance and reinsurance	13,194	13,412
Life assurance	14,121	6,839
Operating result before adjusting the value of bonds to the lower of cost or market value	529	572
Management operating result before unrealized changes in the value of bonds	-550	1,161
Insurance result, non-life insurance and reinsurance	378	288
Management operating result, life assurance	321	197
Total assets (SEK billion)	154.8	138.5
Net asset value (SEK billion)	15,379	13,188
Solvency margin, %	83	60

Skandia

Shanghai Petrochemical Company Limited

Interim Results 1994

Financial Highlights

	For the six months ended 30th June		
	1994 RMB'000 (unaudited)	1994 HK$'000 (unaudited)	1993 RMB'000 (unaudited)
Turnover	4,305,569	3,846,319	4,267,233
Profit before taxation	909,157	812,182	675,271
Taxation	136,374	121,828	101,378
Profit after taxation	772,783	690,354	573,893
Interim dividend	262,000	234,054	200,000
Retained profits	564,845	504,596	373,893
Earnings per share	RMB0.118	HK$0.105	RMB0.143

In the second half of the year, the Company should benefit from continued economic growth in China and the strong demand for its products. The Company's decision not to shut down for overhaul its main facilities this year will result in an extended operational cycle. The utilization of the Company's major facilities is expected to increase and with it the output of major products. The Company expects demand for most petrochemical products to be strong during the second half of 1994. While further government controls on prices including those for petrochemical products are likely, the Company believes that they should not have a negative impact on the operations of the Company. The increase in the prices of crude oil since May will result in higher production costs for the Company during the second half of the year. However, for the two months to the end of June the higher prices for its product, including those for petrochemical products, offset the effect of increased crude oil prices. The Company plans to speed up its technology improvement programme and to continue improving its product quality and production efficiency. It also intends to increase the production of higher-margin downstream petrochemical products.

Wang Jiming
Chairman of the Board and President
29 August 1994

Notes:

(1) Turnover

With the implementation of value added tax, turnover is treated as income excluding tax. For ease of comparison, the turnover figure of RMB4,652 million in the 1993 interim results which includes tax has been adjusted to RMB4,267 million. The cost of sales is calculated on the basis of the value of raw materials purchased excluding value added tax.

(2) Retained profits

Retained profits for the period include the profit after taxation, after deducting the recommended dividend, of RMB510,783,000 and retained profit of RMB54,062,000 carried forward from 1993.

(3) Earnings per share

The calculation of earnings per share for the six months ended 30th June 1993 is based on the 4 billion shares issued as at 30th June 1993.

The calculation of earnings per share for the six months ended 30th June 1994 is based on the 6.55 billion shares issued as at 30th June 1994.

(4) Hong Kong dollar equivalents

For the convenience of the reader, amounts in Renminbi (RMB) have been translated into Hong Kong dollars at the rate of HK$1.00 = RMB 1.1194, being the average of the buying and selling rates prevailing at the China Foreign Exchange Trading Centre at the close of business on 30th June 1994. No representation is made that the Renminbi amounts could have been, or could be converted into Hong Kong dollars at that rate.

If you wish to receive further information on Shanghai Petrochemical or supplementary information on the Company's interim results reconciled to US GAAP, please fax your request to The Rowland Company at (852) 543-3030.

INTERNATIONAL COMPANIES AND FINANCE

Telefónica rises 4.7% to Pta52bn at halfway stage

By Tom Burns in Madrid

Telefónica, the state-controlled Spanish telecommunications group and the biggest company on the Madrid stock exchange, lifted first-half consolidated net profits by 4.7 per cent to Pta52bn ($397m) on the back of increased demand, lower financial charges and increasing international business.

The increased group profits reflected in particular the performance of Telefónica Internacional (Tisa) which has invested strongly in acquiring Latin American telecommunications companies. Talks are taking place that aim to bring both GTE and Unisource into Tisa as large shareholders.

Results at the Telefónica parent company were up by just 1.7 per cent to Pta44.8bn, in spite of a 6.5 per cent rise in operating income and a 7 per cent fall in financial charges.

Analysts believe the parent company could be keeping its net profits low to prod government regulators into raising tariff charges.

Improved first-half results, reflecting the incipient domestic recovery, were also posted by Iberdrola, the private sector electrical utility, and by Tabacalera, the government-controlled tobacco manufacturer and distributor.

Iberdrola reported a 96 per cent jump in its net profits over the first six months of the year to Pta49.7bn but this sharp increase included extraordinary income of Pta25.2bn realised through the disposal of its Barcelona-based subsidiary, Hidroelectrica de Cataluña, to the state-controlled utility Endesa.

Iberdrola's net profits, without this extraordinary item, rose by 11.7 per cent due to energy demand, lower expenditure and an 18 per cent fall in financial charges brought about by falling interest rates and reduced borrowing.

Tabacalera, which is 52 per cent state-owned, raised its net first half group profits by 32.5 per cent to Pta5.7bn.

The increase was due to extraordinary income of Pta2.5bn realised through the disposal of its food division Royal Brands to Nabisco of the US, to a 54 per cent drop in financial charges and a 23 per cent rise in tobacco sales.

The sharp jump in sales was largely due to government action in curbing cigarette smuggling.

Net income up 2% at Sandoz in first half

By Ian Rodger in Zurich

Sandoz, the Swiss pharmaceuticals, nutrition and chemicals group that has just acquired Gerber Food Products of the US for $3.7bn, raised net income 2 per cent in the first half to SFr1.01bn ($760m).

Operating income grew a faster 7 per cent to SFr1.36bn on sales up 2 per cent to SFr8.2bn, 8 per cent higher in local currencies. But the net financial result tumbled from a SFr79m profit to a SFr90m loss because of price declines of securities held.

Sandoz expected sales trends in leading markets to remain favourable in the second half and operating income to "continue its upward path".

Gerber would be consolidated from August 25. Mr Raymund Breu, Sandoz finance director, said the baby food group would add $410m to group sales and $70m to operating income this year. At net income level, it would have no effect this year or in 1995.

Group volume growth was 4.6 per cent in the first half, with a 10 per cent rise from agricultural chemicals, 5 per cent from construction and 4 per cent from both pharmaceuticals and nutrition divisions.

Prices were squeezed, so the improvement in the operating margin from 15.9 per cent to 16.5 per cent came from volume and cost improvements.

Sales of the pharmaceuticals division were down 1 per cent to SFr3.59bn, reflecting government enforced price cuts in some countries and the strong Swiss franc.

Sales of the nutrition division soared 29 per cent to SFr1.15bn, largely as a result of acquisitions last year.

Sales in the chemicals and environment sector were flat at SFr2.76bn, with gains in agriculture and construction offsetting an 8 per cent slide in chemical sales, especially those to textile and paper makers.

Canadian banks ahead sharply in third period

By Robert Gibbens in Montreal

Canada's two biggest banks posted sharply higher third quarter earnings, driven by strong lending activity, rising fee income, tight expense control and lower loan losses.

Royal Bank of Canada's net profit for the July quarter was C$294m (US$213m), or 80 cents a share, an increase of 32 per cent on the C$223m, or 38 cents, a year earlier. Return on assets was up at 0.70 per cent, against 0.62 per cent and on equity rose to 16.5 per cent from 11.7 per cent.

Nine-month profit was C$867m, or C$2.36, an advance of 20 per cent from C$720m, or C$1.93. Return on assets was 0.70 per cent compared with 0.69 per cent and on equity 16.9 per cent against 13.4 per cent.

Non-performing loans dropped 24 per cent to C$1.8bn at July 31 while the loan-loss provision for fiscal 1994 is C$820m against C$1.75bn in fiscal 1993.

The trust and investment-brokerage units improved. At July 31 assets totalled C$172bn, up 2 per cent year-on-year.

Canadian Imperial Bank of Commerce said third-quarter net profit was C$223m, or 87 cents, ahead 17 per cent from a year earlier. Return on assets was 0.58 per cent, against 0.55 per cent, and on equity 11.5 per cent, up from 10.5 per cent.

Nine-months earnings were C$654m, or C$2.59, an increase of 21 per cent from C$539m, or C$2.24.

Total revenues rose 11 per cent with strong business and consumer lending, while investments and brokerage activities were ahead. Net interest income was up 4 per cent and other income ahead 11 per cent.

Non-performing loans continued to decline, to C$1.7bn at July 31, while fiscal 1994 loan provision was unchanged at C$880m. Total assets reached C$152.5bn, up 9 per cent year-on-year.

● Boise Cascade, the US forest products group, is going ahead this month with an initial public offering of Rainy River Forest Products, a Canadian subsidiary holding all the newsprint assets.

Rainy River, with two mills in Canada and one in the US, will have annual sales of more than US$350m and rank among North America's top 10 producers of newsprint and groundwood papers.

Boise Cascade expects to raise C$420m by selling units of Rainy River, comprising common shares and convertible debentures.

Boise Cascade will also raise US$110m with an institutional issue of secured notes.

Speculation on NBC TV bid persists

By Patrick Harverson in New York

Speculation about a possible takeover of the NBC television network continued yesterday after a senior NBC executive stopped short of issuing an outright denial of reports that General Electric, NBC's parent group, has been considering selling all or part of the network to Time Warner.

Mr Robert Wright, president of NBC, would only say that a report that NBC and Time Warner had been negotiating a sale of the network for $2.5bn was not accurate. A spokesman for Time Warner, meanwhile, said the group would not comment on the story.

Mr Wright's comments failed to dampen takeover speculation on Wall Street, which has been buzzing with rumours about upheaval in the US network television market.

The latest talk of a NBC takeover was accompanied by reports that Walt Disney has been negotiating to buy the CBS network, which earlier this year failed to merge with the QVC television home-shopping company.

The takeover rumours lifted GE and CBS's share prices yesterday, even though most leading stocks on Wall Street were lower. GE climbed $⅞ to $50⅞, and CBS rose $6⅞ to $328, while Time Warner fell $⅜ to $37⅞ and Disney fell $⅜ to $41.

This is not the first time GE is reported to have been discussing selling NBC, which it bought in 1986 as part of the $6.3bn acquisition of RCA Corporation.

On previous occasions, Mr Jack Welch, GE president, had insisted the network was not for sale, most recently last November. Yesterday, there was no comment from Mr Welch.

Although Mr Welch has said he wanted NBC to remain part of GE, the diversified industrial group is believed to be unhappy with the network's recent performance.

NBC's revenues last year were down from 1993 levels, it has had the lowest ratings of the big three networks for the past three years, and has suffered a string of recent mishaps, including a staged accident in a television news report on General Motors pick-up trucks.

If Time Warner is interested in buying NBC, it is understandable, given that the entertainment group is eager to develop its television interests and is preparing to launch its own broadcast network.

Any deal between GE and Time Warner over NBC would run into regulatory problems. Certain limits are placed on cross-ownership of broadcast and cable TV interests and Time Warner has extensive cable TV operations.

Charge puts Brambles into the red

By Nikki Tait in Melbourne

Brambles, the Australian transportation group, yesterday announced a A$233.2m (US$171.4m) loss after tax and abnormal items for the year to end-June, a sharp reversal from the previous year's A$166.1m profit.

The damage was done by a A$378.1m abnormal charge, already reported in the first-half and mainly due to the write-off of goodwill at Brambles' US-based waste management operation, Ensco.

The company said there were no abnormal items in the second half.

Operating profits before abnormals and tax for the year were A$242m, slightly below the previous year's A$259.2m. Brambles said, however, that second-half results were in line with expectations and it had "reached a turning point".

Revenues were little changed at A$2.74bn, against A$2.71bn.

Wallenbergs give a lesson in invisibility

The empire is held in a strong hand, write **Hugh Carnegy** and **Christopher Brown-Humes**

A visitor to Stockholm intent on seeking out Europe's premier industrial dynasty would soon discover something striking about the Wallenberg empire. It has no headquarters, no annual report and no corporate logo.

This public invisibility stands in stark contrast to the glittering list of Swedish blue-chip companies which the Wallenberg family controls such as Asea, Electrolux, Ericsson, Astra, Stora, Saab-Scania and SKF.

But it is a key to understanding the way in which the Wallenbergs operate. They deliberately adopt a low-profile approach, shunning the limelight and avoiding a jet-set lifestyle. When they take to the water it is to sail in Stockholm's archipelago rather than to cruise in luxury yachts off the Côte d'Azur. Their style is summed up in the family motto "Esse Non Vidare" – To Be, Not To Be Seen.

Their empire is a collection of widely disparate companies gathered under the same umbrella but controlled most often through minority shareholdings. It is the identities of the individual companies which are promoted rather than the common ownership.

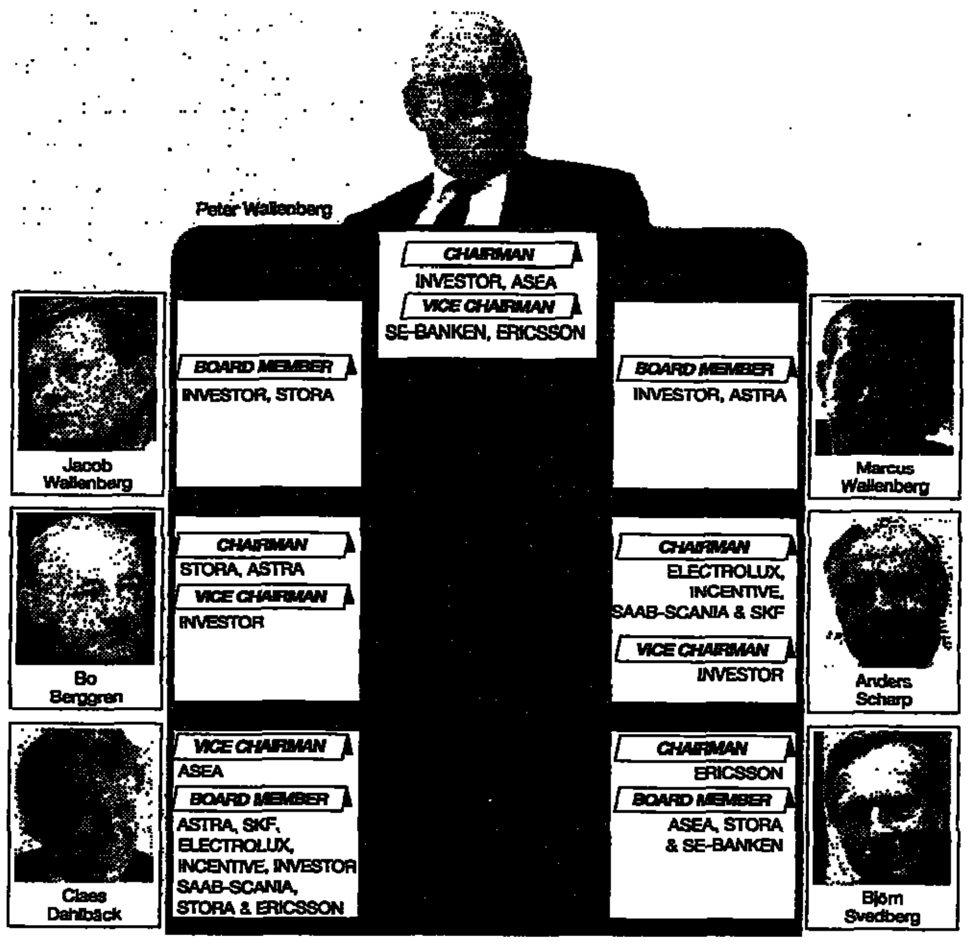
However, the invisibility belies the strong hold exercised by the family, headed by Peter Wallenberg, and a circle of trusted lieutenants over a fiefdom accounting for 40 per cent of the value of the Stockholm Stock Exchange.

"They will always be strong owners. They want to control their companies, they want to make the decisions," says a former Wallenberg director.

This rule through a close-knit network which acts as a kind of super-board has been the Wallenbergs' traditional way of managing the empire.

It operates largely informally through frequent meetings in offices of the key companies scattered around Stockholm's handsome waterfront, through daily telephone calls between the main protagonists and through a regular round of discreet social gatherings.

At the pinnacle stands Peter Wallenberg, aged 68. Alongside him in what the former director calls "an inner, inner circle", are his anointed dual heirs, his son Jacob and his nephew Marcus, both in their late 30s.



Today, the other key members of the network include Bo Berggren, chairman of Stora, Anders Scharp, chairman of Electrolux, Claes Dahlbäck, chief executive of Investor, the family's core holding company, and Björn Svedberg, chairman of Ericsson and chief executive of Skandinaviska Enskilda Banken, the family bank.

Another insider is Percy Barnevik, the chief executive of Asea Brown Boveri, the Swiss-Swedish engineering group which the Wallenberg's half control. However, he appears to play a more independent role, holding chairmanships of Swedish companies outside the Wallenberg sphere.

All this group, with the exception of Björn Svedberg, sit on the board of Investor, which Peter Wallenberg chairs.

But they also meet in overlapping combinations, with one of them usually acting as chairman, across the core Wallenberg companies.

The system is perfectly suited to providing a sheltered habitat within which Peter is grooming Jacob and Marcus to succeed him. They have moved up from lower level jobs within the empire, inside and outside Sweden, to senior executive positions, respectively, in SE-Banken and Investor, and to assume their first board positions.

Peter Wallenberg says the cousins will take over when he decides they are ready. He is using the network to give Jacob and Marcus the chance to gain experience precisely in the way he was denied by his father, who denigrated Peter's abilities.

Members of the network say it provides a valuable cross-fertilisation of views and strategic guidance for individual companies. But they insist this is distinct from unwarranted interference in day-to-day management, which is left to the executives running the companies.

The Wallenbergs certainly pride themselves in having fostered successive generations of loyal managements who have had the backing to produce long-term results.

One is Ericsson, the telecommunications group, where management under chief executive Lars Ramqvist spent heavily on research and development in the early 1990s – more than 20 per cent of turnover – at the expense of dividends. The pay-off has been Ericsson's present success, especially in mobile telephony.

The network also provides an invaluable service to individual companies, providing access to the Wallenbergs' extensive international business, political and academic contacts.

Peter Wallenberg sits, for example, on Swiss Bank Corp's international advisory board and GM's European advisory council. Similar prestige posts are held by all the inner circle.

These contacts were put to spectacular use in 1991 when Jacob Wallenberg led a move by Investor to raise a $1.5bn unsecured syndicated bank loan to fund Investor's buy-out of Saab-Scania.

"Do you think you'd get that out of the major banks without having a particular reputation?" says Peter Wallenberg.

But the other side of the coin is the concern that the network is too incestuous and is there mainly to support decision-making by the family.

"When it comes to strategy it is a question in the end for Peter Wallenberg to make the decisions, and he does," says a former insider. "The others are just advisers."

Key issues, he says, are worked out before board meetings by the inner circle.

Some critics worry that the network system ultimately stifles initiative. "In every such constellation, there is a danger they are protecting each other," says Per Olof Edin, chief economist at the LO trade union federation.

The network to date has certainly tended to resist outside intrusions. In 1990, the Wallenbergs responded to a demand for a seat on Saab-Scania's board by Sven Olof Johansson, a corporate raider who had built up a 22 per cent stake, by buying him out.

Today there is a striking discrepancy between the virtual absence of foreigners on Wallenberg company boards and the fact that as much as 50 per cent of the capital of individual companies is held by foreign investors.

This is not a pressing issue now because no single interest has built up a significant voting stake in any company. But it could become so as the spate of foreign buying of Swedish shares unleashed by deregulation continues unabated.

This is the second article in a three-part series on the Wallenbergs. The first appeared yesterday.

VW and Ford loosen links in Autolatina

By Patrick McCurry in São Paulo

Soaring Brazilian car production and increasing rivalry between dealers has forced Ford and Volkswagen to loosen their links in Autolatina, the holding company for their joint operations in Brazil and Argentina.

The companies will no longer produce similar-looking vehicles from common production platforms, but instead use the world platforms of their parent companies. However, they have not confirmed local media reports that Autolatina will be disbanded.

Autolatina plans to produce the Fiesta model locally because of the growing Brazilian market for small cars. The company intends to invest $400m in the venture by the end of next year.

Autolatina was formed in 1987 during a period of low production and investment in Brazil's car industry.

Recent growth and the opening of Brazil's economy led to the decision to use world platforms, according to company president Mr Pierre-Alain de Smedt. Pressure from VW dealers, reluctant to share the platform for the new Golf model with Ford, also contributed.

Mr de Smedt said Ford and VW would have more autonomy within Autolatina but the holding company would continue in areas such as purchasing, administration and legal services.

The Brazilian car market has been recovering since 1992 thanks to pacts between the industry and the government, which reduced vehicle taxes.

Loss deepens at Danish shipping group

By Hilary Barnes in Copenhagen

Lauritzen Holding, the Danish shipping and shipbuilding group, suffered a first-half net loss of DKr198m ($32m), compared with a first-half loss last year of DKr73m.

The group takes in the J Lauritzen Shipping Group, DFDS, the North Sea freight and ferry group, and the Danyard shipyard.

Sales were up to DKr4.89bn from DKr4.33bn, but the result was hit by a rise in net financial costs to DKr230m from DKr142m and a DKr54m loss on the disposal of vessels.

The J Lauritzen Company made a loss of DKr289m, against a loss of DKr118m. The company's fleet of refrigerated cargo vessels was hurt by low freight rates and the weakness of the dollar against the krone.

The holding company said it has increased the shipping company's capital by issuing subordinated loan capital of DKr150m.

The shipyard also moved into a loss of DKr42m, compared with a profit of DKr66m.

The group has predicted a full-year loss of the same order as in 1993, when there was a net deficit of DKr178m.

● FLS Industries, the industrial conglomerate which is a leading global supplier of cement mills and machinery, has reported an increase in first-half net profits to DKr176m from DKr126m in the same period of last year.

Sales advanced to DKr6.45bn from DKr5.6bn, which was mainly a reflection of the domestic building materials group Aalborg Portland being classified as a subsidiary rather than as an associate company.

● Codan, Denmark's biggest non-life insurance group, recorded a first-half net loss of DKr146m, against a profit in the same period last year of DKr503m.

Profits from insurance activities improved to DKr157m from a loss last year of DKr163m, but there were unrealised losses on securities of DKr303m this year against unrealised gains last year of DKr66m.

VA Technologie AG - Austria's largest engineering group - is active in Metallurgical Engineering, Energy and Environmental Engineering and Construction and Engineering Services, on a truly worldwide basis, with over 50% of turnover generated outside Austria.

The VA Technologie Group successfully floated 51% of its shares on the Vienna Stock Exchange last May.

All key figures of the Group for the first half of 1994 are higher than last year:

- Order intake rose by 10% with strongest growth in Construction and Engineering Services and Metallurgical Engineering
- 52% of order intake was in Energy and Environmental Engineering
- 25% of orders received came from the Far East
- Order backlog rose by 5% compared with the first half of 1993 (and by 10% over year-end 1993)
- Turnover increased by 40% over the comparable figure for 1993, mainly due to accounting practices applied to engineering companies
- Ordinary profit and net profit rose by 50% and 68% respectively over last year's first six months

As in previous years, the largest part of turnover will be achieved during the second half of 1994. This will also result in profits being higher in the second half of the year than in the first six months. This factor, as well as the expected order intake, should result in a higher profit for 1994 than in 1993. This will enable a shareholder-friendly dividend policy for the current business year.

VA Technologie.

Report on the first half-year ended June 30th, 1994.

KEY FIGURES	First half-year 1994 (ATSm)	First half-year 1993 (ATSm)	Change %
ORDER INTAKE	17,146	15,590	+10
ORDER BACKLOG	56,794	54,020	+5
TURNOVER*	10,184	7,295	+40
PROFIT FROM ORDINARY ACTIVITIES	307	205	+50
NET PROFIT	286	170	+68
EMPLOYEES	13,462	12,930	+4

CONSOLIDATED

For a copy of VA Technologie's 1994 half-year report or further information, please contact: Wolfgang Schwaiger, Investor Relations, VA Technologie AG, Lunzerstraße 64, A-4031 Linz, Austria.

VATECH
VA TECHNOLOGIE AG

Sharp drop at Western Mining

By Nikki Tait in Melbourne

Western Mining Corporation, the Australian mining group, yesterday reported an equity-consolidated profit, after tax but before abnormal items, of A$119.7m (US$89m) in the year to end-June.

This compared with A$165.5m in the previous year, a fall of 27.8 per cent.

WMC took a large abnormal charge in 1992-93, of A$113.3m before tax, while the net charge in 1993-94 was A$700,000. As a result, WMC's equity profit after tax and abnormals was sharply improved, to A$125m in the year just ended, compared with A$38.2m previously.

This figure was in line with the profits forecast made by WMC in its rights issue prospectus last month.

The fall in Western's pre-abnormal profits derived largely from an 18.4 per cent drop in operating earnings, to A$127.8m. Total revenue was 7.6 per cent higher at A$1.7bn.

On a divisional basis, WMC's nickel operations remained in the red, although the loss was reduced to A$23.2m from A$284m.

The company noted that this improvement came despite a 14 per cent decline in US dollar terms for the overall price of nickel, and the production interruptions as the upgrading of facilities took place.

The Olympic Dam business contributed A$60.2m, against A$47.4m, but the advance was largely due to WMC's increasing its ownership of the operations to 100 per cent.

Higher production, coupled with an improved gold price, meant that the Australian gold interests made A$74.2m, up from A$38.5m. However, the North and South American gold interests produced a loss of A$16m.

The main depressant on profits was the petroleum division, which turned in profits of A$4.7m, compared with A$43.7m in the previous year. A lower oil price, declining production from a couple of fields, and an increase in unit costs due to higher amortisation/depletion charges did the damage.

WMC's share of after-tax profits from Alcoa of Australia, in which it has a 48.25 per cent stake, also fell, by 17.6 per cent to A$147.3m. This was largely due to lower US dollar prices and lower aluminium sales volumes.

However, Mr Hugh Morgan, WMC's managing director, held out the prospect of a better year ahead.

The final dividend is 4 cents a share, down from 7 cents last time, making 8 cents for the year, against 10 cents last time.

Bank Bumiputra reports impressive profits leap

By Kieran Cooke in Singapore

Bank Bumiputra, Malaysia's second biggest bank which in the past has been dogged by financial scandal and mismanagement, seems to have put the bad days firmly behind it with a big leap in profits.

For the year to end-March, Bank Bumiputra recorded a pre-tax profit of M$450m (US$176m), compared with M$81m in the previous year. Group income for the year rose almost 90 per cent to M$990m.

Directors said that fee-based income and foreign exchange earnings made up about half the group's income, while the recovery of bad loans contributed considerably towards the leap in profitability.

Bank Bumiputra is wholly owned by the Malaysian government. In the mid-1980s, it was involved in a loans scandal centred on the exposure of its Bumiputra Merchant Finance subsidiary in the Hong Kong property market.

Later, the bank faced bankruptcy over bad loans, this time in the Malaysian market. On both occasions Petronas, the Malaysian state oil company, had to come to the bank's rescue.

The Malaysian government intends to privatise the bank.

Evolutionary, not revolutionary, approach at Elf

Philippe Jaffré has run the oil group for a year, guiding it through the first stages of privatisation, reports John Ridding

A tanker cannot turn on a sixpence, and it takes time to steer a new course at one of the world's leading oil groups.

That is the message from Mr Philippe Jaffré, chairman of Elf Aquitaine, France's largest industrial concern, after one year at the helm and seven months after having guided his charge through privatisation.

That is also the message from first-half results, which showed a decline of 10 per cent in net profits to FFr1.2bn ($222m). A boost from the company's chemicals activities in the second quarter meant the result was better than expected after a profits warning in June.

But Elf is still looking at another year of relatively meagre pickings, compared with the FFr10.6bn at which net profits peaked in 1990.

Part of the explanation for the decline in profits lies in adverse conditions which have confronted all of the international oil majors – the fall in the oil price which continued into the first half of the year, pressure on refining margins and, for non-US groups, the weakness in the dollar.

But Elf also faces structural problems which have sapped its powers of resistance. "When you have any structural problem, it takes time and a lot of effort to remedy," says Mr Jaffré.

The problem is the legacy of an expensive and ambitious expansion strategy in the early 1990s, which included the acquisition of the North Sea assets of Occidental of the US and stakes in diverse companies such as Bidermann, the textiles group.

The strategy left Elf with a rising debt burden, which totalled FFr52bn at the end of last year, increased financial charges and a declining return on capital, which fell from 13 per cent in 1989 to 4 per cent at the end of last year.

In an attempt to reverse the trend, Mr Jaffré is pursuing a strategy of debt reduction, tighter controls on investments and a focus on the group's three core business areas – oil, chemicals and healthcare.

But he is implementing his strategy through an evolutionary rather than a revolutionary approach, avoiding announcements of aggressive cost-cutting.

The approach has prompted impatience among some investors. "I think that a lot of people who bought shares in Elf when it was privatised were buying for the upside potential of a big restructuring similar to what has happened at companies like BP," says one analyst at a US securities company.

"There is a feeling that Mr Jaffré is moving in the right direction but they haven't heard much to convince them of a big rationalisation effort."

Mr Jaffré is aware of such sentiments. "I know that Anglo-Saxon investors adore it when big cost-cutting plans are announced," he says.

However, the Elf chief argues that such an approach is inefficient in the case of French industry and that the measures being implemented at Elf, without fanfare, are beginning to bear fruit.

On the first count, Mr Jaffré claims that the best way to prevent a restructuring plan in a French company is to announce it in advance. "If I was to declare a big cost-cutting plan then there would be resistance."

The Elf chairman argues that French industry has made significant progress in reducing costs and increasing efficiency in recent years without high-profile restructuring announcements.

He cites Renault, the automobile group, and Saint Gobain, the glass and building materials company, as well as Elf's own chemicals operations, which saw profits treble in the first half of the year.

For Elf as a whole, he argues that significant reforms have also been put in place over the past nine months, attacking the company's cost base and improving efficiency.

Investment spending this year is to be reduced by 20 per cent to FFr32bn. The FFr15bn spent in the first half shows the company is on course to reach this objective.

Elf's participation in the Leuna refinery project in eastern Germany has been cut from a majority stake to 43 per cent, after a test of strength with the Treuhand privatisation agency.

The company has also embarked on an asset sale programme aimed at realising net receipts of FFr5bn this year. Receipts in the first half amounted to FFr1.5bn, including the sale of Elf's stake in Havas, the media and publishing group.

Another FFr2bn should be realised by the end of this quarter, and a further FFr3bn or so by the year-end. Against this could be offset about FFr1bn through an investment in Renault, a close partner of Elf, should the vehicle group be privatised.

The sale of assets will help ease Elf's debt burden, which Mr Jaffré says has stabilised and should start to decline from next year. But although he is a former head of Crédit Agricole, one of France's biggest banks, he denies he is taking a purely financial approach at his new charge.

"I didn't start by saying I must cut debts at the group, which would have been a bit reductionist. I started by saying that we must re-establish the profitability of the group and to do this we must concentrate on our core businesses. As a consequence we can sell assets and reduce debts."

Financial charges are expected to start falling from 1995, when most analysts see the potential for a healthy rise in profits. Until then, the debt burden and the weakness in the dollar will offset, partly at least, the gains from a higher second-half oil price and stronger profits from chemicals and healthcare operations.

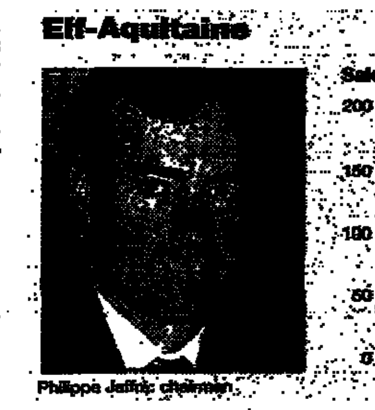
Measures are also being taken to increase the emphasis on profitability among the company's 90,000 employees.

Mr Jaffré denies that radical measures are needed to shake up the culture of the group. "Elf already has a taste for performance and development which is shown by the fact that it has gone from nowhere 50 years ago to rank among the world's 30 biggest companies today."

However, he says he is seeking to add a bit of "mustard" to staff attitudes through expanding employee share ownership and introducing stock options for senior executives, a scheme which is being discussed by Elf's board.

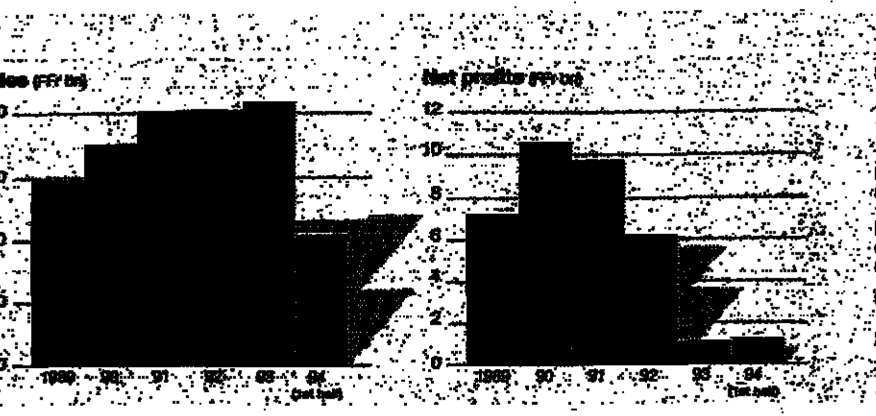
Such Anglo-Saxon measures, he feels, will sharpen Elf's competitive edge.

For British and US investors, however, it is a trace of mustard at the bottom line which is awaited.



Philippe Jaffré: chairman

Elf-Aquitaine



Sales by activity (FFr bn)

	1991	1992	1993
Exploration and production	20.8	17.6	17.5
Refining, distribution and trading	107.4	113.2	120.1
Chemicals	53.1	49.4	48.5
Health	19.6	21.4	23.6
Total	200.7	200.6	209.7

Amcor advances to A$336.9m and increases yearly dividend

By Nikki Tait

Profits at Amcor, the Australian paper and packaging group, rose to A$336.9m (US$250m) from A$266.9m in the year to end-June, after tax but before abnormal charges.

The company said the advance reflected improved results across its operations, and came despite highly competitive markets.

However, bottomline results were marred by abnormal items, which included a charge of A$80.3m, mainly covering restructuring costs flowing from the APPM acquisition last year, and goodwill write-offs.

In the previous year, Amcor enjoyed a A$48m abnormal surplus, so profits after tax and abnormals fell to A$256.6m from A$314.9m.

Sales for the year were up to A$5.55bn from A$4.82bn, and earnings per share before abnormals and on a fully-diluted basis increased by 19.7 per cent, to 56.4 cents.

In the containers packaging division, sales were up by 12.3 per cent to A$1.79bn, while operating profits rose to A$208.9m, from A$200.8m. Amcor said the result was good, given "the extensive rationalisation and other structural changes in the industry sectors in which containers operate".

Amcor Fibre Packaging saw sales rise to A$1.78bn from A$1.53bn, while profits were A$141.9m, against A$111.1m last time.

On the paper side, Amcor Paper Group produced a 9.4 per cent operating profit gain, at A$177.4m, with sales climbing by 28 per cent to A$1.15bn.

Interest charges fell to A$63.8m from A$75.1m, and the group's capital and acquisition expenditure during the year topped A$1.1bn, compared with A$708m previously.

The dividend for the year is 34 cents, up from 31 cents, with a final of 2 cents higher at 18 cents.

● **Burns Philp**, the Sydney-based company which has been building up its food ingredients business aggressively in recent months, yesterday announced after-tax profits of A$123m in the year to end-June, up from A$110.1m last time.

Operating earnings, before interest and tax were 14 per cent higher at A$219.8m, while sales were A$2.79bn, compared with A$2.68bn previously. Earnings per share, on a fully-diluted basis, increased by 6 per cent to 27.6 cents.

Annual Investor Statement
Dated as of August 12, 1994

CHRYSLER CREDIT CORPORATION

CARCO DEALRs℠ WHOLESALE TRUST 1990-A

Annual Investor Statement as of August 12, 1994, for the one year period commencing August 13, 1993 and ending on August 12, 1994 (the "Annual Period") as provided by Chrysler Credit Corporation, as Servicer.

The following information is provided by Chrysler Credit Corporation, as servicer (the "Servicer") pursuant to Section 5.02 of the Pooling and Servicing Agreement dated as of August 1, 1990 among Chrysler Auto Receivables Company, as seller, the Servicer and The Fuji Bank and Trust Company, as trustee (the "Pooling and Servicing Agreement").

Total Principal Receivables balance on August 12, 1994 amounted to U.S. $651,527,588.07. Such aggregate balance is allocated among the various ownership interests as follows:

Investor Amount	U.S.$	650,000,000.00
Base Subordinated Seller Amount	U.S.$	51,705,000.00
Incremental Subordinated Amount	U.S.$	8,606,237.00
Senior Seller Amount	U.S.$	52,000,000.00
Excess Senior Amount	U.S.$	4,436,538.69
Existing credit enhancement currently totals and is comprised of the following:	U.S.$	93,955,000.00
Spread Account Balance	U.S.$	3,250,000.00
- Net Increase (Decrease) in Spread Account Balance for the current Annual Period	U.S.$	-0-
- Percentage of Spread Amount Cap		100.00%
Base Subordinated Seller Amount	U.S.$	51,705,000.00
- Net Increase (Decrease) in Base Subordinated Seller Amount for the current Annual Period	U.S.$	-0-
- Percentage of Initial Base Subordinated Seller Amount		100.00%
Available Letter of Credit Amount	U.S.$	32,500,000.00
- Net Increase (Decrease) in Available Letter of Credit Amount for the current Annual Period	U.S.$	-0-
- Percentage of Stated Letter of Credit Amount		100.00%
Yield Supplement Account Balance	U.S.$	6,500,000.00
- Net Increase (Decrease) in Yield Supplement Account Balance for the current Annual Period	U.S.$	6,500,000.00
- Percentage of Spread Amount Cap		100.00%

Available Funds exceeded Required Monthly Coverage in 12 out of the 12 months of the current Annual Period.

Amount withdrawn from the Spread Account:	U.S.$	-0-
Amount of Available Subordinated Funds drawn:	U.S.$	-0-
Amount of draw under the Letter of Credit:	U.S.$	-0-
Amount added to the Yield Supplement Account:	U.S.$	6,500,000.00

As of the date of this Annual Investor Statement no Amortization Event has been deemed to have occurred.

Capitalized terms used but not defined herein have the meanings ascribed thereto in the Pooling and Servicing Agreement.

By: Chrysler Credit Corporation
as Servicer

MFC
Mortgage Funding Corporation No.5 PLC
(Incorporated in England and Wales with limited liability under registered number 2079671)
Class A Multi-Class Mortgage Backed Floating Rate Notes due November, 2035
Class A-1 £110,000,000 Class A-3 £17,500,000
Class A-2 £ 80,000,000 Mezzanine Notes £18,500,000
For the interest period 31st August, 1994 to 30th November, 1994 the Class A-1 Notes will bear interest at 5.9375% per annum. Interest payable on 30th November, 1994 will amount to £469.66 per £31,727.27 Note. The Class A-2 Notes will bear interest at 6.1125% per annum. Interest payable on 30th November, 1994 will amount to £1,523.94 per £100,000 Note. The Class A-3 Notes will bear interest at 6.2625% per annum. Interest payable on 30th November, 1994 will amount to £1,561.34 per £100,000 Note. The Mezzanine Notes will bear interest at 6.6625% per annum. Interest payable on 30th November, 1994 will amount to £1,661.06 per £100,000 Note.
Bankers Trust Company, London — Agent Bank

U.S.$160,000,000
UMC
United Microelectronics Corporation
("the Company")
(Incorporated with limited liability in Taiwan, Republic of China)
1.25 per cent. Bonds due 2004
("the Bonds")
NOTICE IS HEREBY GIVEN to the holders of the outstanding Bonds that the Company has announced a bonus share issue of 171,559,420 shares with a record date of July 7, 1994. In accordance with the provisions of the Indenture constituting the Bonds the Conversion Price has been adjusted from NT$94 per share to NT$75 per share effective July 13, 1994.
United Microelectronics Corporation
September 2, 1994

3i International B.V.
£150,000,000
Guaranteed floating rate notes 1999
The notes will bear interest at 5.75% per annum for the interest period 31 August 1994 to 30 November 1994. Interest payable on 30 November 1994 will amount to £143.36 per £10,000 note and £1,433.56 per £100,000 note.
Agent: Morgan Guaranty Trust Company
JPMorgan

CREDIT LOCAL DE FRANCE - CAECL S.A.
U.S.$2,000,000,000
Euro-Medium Term Notes
SERIES NO.12
FFC725,000,000 Inverse floating rate notes 1996
TRANCHE NO.1
Notice is hereby given that for the interest period 1 September 1994 to 1 December 1994 the notes will bear interest at 24.69925% per annum. Interest payable on 1 December 1994 will amount to FF31,217.11 per FF500,000 denomination.
Agent: Morgan Guaranty Trust Company
JPMorgan

Mortgage Funding Corporation No 2 Plc
£115,000,000 Class B-1
£11,000,000 Class B-2
Mortgage backed floating rate notes August 2023
For the interest period 31 August 1994 to 30 November 1994 the Class B-1 notes will bear interest at 5.8875% per annum. Interest payable on 30 Novembert 1994 will amount to £1,467.84 per £100,000 note. The Class B-2 notes will bear interest at 6.0625% per annum. Interest payable on 30 November 1994 will amount to £1,511.47per £100,000 note.
Agent: Morgan Guaranty Trust Company
JPMorgan

WOOLWICH
- Building Society -
£33,000,000
Subordinated floating rate notes due 2001
Notice is hereby given that the notes will bear interest at 7.1625% per annum from 31 August 1994 to 28 February 1995. Interest payable on 28 February 1995 will amount to £3,551.82 per £100,000 note.
Agent: Morgan Guaranty Trust Company
JPMorgan

MANUFACTURERS HANOVER TRUST COMPANY
GBP75,000,000
FLOATING RATE SUBORDINATED CAPITAL NOTES DUE 1994
In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the Interest Period from 31 August 1994 to 21 November 1994 has been fixed at 5⅝ per cent per annum. The Coupon Amounts will be £63.89 for the £5,000 denomination and £638.87 for the £50,000 denomination and will be payable on 21 November 1994 against surrender of Coupon No. 38.
Chemical
As Agent Bank

To the holders of
Mortgage Capital Trust I
Collateralized Mortgage Obligations, Series A
Class A-1 Bonds Due 1st June, 2017
Notice is hereby given that the interest rate on the Class A-1 Bonds for the interest period 1st September, 1994 through 1st December, 1994 is 5.6% per annum.
By: Bankers Trust Company, as Trustee.

£65,900,000
CARPS III Limited
Secured Amortising Floating Rate Notes due 1999
For the three month interest period August 31, 1994 to November 30, 1994, the rate has been determined at 5.7625%. The interest payable on the relevant interest payment date, November 30, 1994 will be £906.18 per £63,074.36 principal amount of Notes.
By: The Chase Manhattan Bank, N.A. London, Agent Bank
September 2, 1994
CHASE

AKRANES & BORGARFJORDUR HEATING CORPORATION
USD 10,000,000
Floating Rate Notes due 1995
In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from August 31, 1994 to February 28, 1995 the Notes will carry an Interest Rate of 5.4375% per annum.
The Coupon Amount payable on the relevant Interest Payment Date, February 28, 1995 will be US$ 27,338.54 per US$ 1,000,000 principal amount of Note.
THE AGENT BANK

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading: Pool purchase price £/MWh	Final Prices for Trading: Pool purchase price £/MWh	Final Prices for Trading: Pool selling price £/MWh
0030	15.92	10.95	13.44
0100	10.50	9.90	9.90
0130	10.50	9.90	9.90
0200	10.50	9.90	9.90
0230	10.50	9.90	9.90
0300	10.50	9.90	9.90
0330	10.50	9.90	9.90
0400	10.50	9.90	9.90
0430	10.50	9.90	9.90
0500	10.50	9.90	9.90
0530	10.95	9.80	9.80
0600	10.95	9.61	9.61
0630	13.16	9.61	9.61
0700	16.25	12.38	14.85
0730	18.39	16.68	19.17
0800	18.82	17.44	19.94
0830	20.82	16.91	19.40
0900	20.94	19.65	22.16
0930	28.16	21.50	24.01
1000	28.17	33.28	36.79
1030	28.17	33.28	35.79
1100	28.16	21.51	24.02
1130	28.16	21.50	24.00
1200	28.16	19.67	22.17
1230	28.15	19.66	22.16
1300	28.13	18.33	20.83
1330	20.65	19.64	22.13
1400	19.93	17.76	20.25
1430	18.82	17.44	19.94
1500	18.82	17.44	19.94
1530	18.82	16.91	19.40
1600	18.82	16.91	19.40
1630	18.82	16.91	19.40
1700	24.57	16.91	19.40
1730	24.57	16.91	19.40
1800	24.57	16.91	19.40
1830	18.19	16.68	19.17
1900	18.39	16.68	19.17
1930	17.66	16.68	19.17
2000	17.98	16.68	19.17
2030	31.00	10.62	10.62
2100	31.84	13.95	16.44
2130	24.28	22.30	24.79
2200	16.77	22.30	24.79
2230	17.98	22.30	24.79
2300	16.07	16.16	18.68
2330	16.25	13.23	15.72
2400	13.16	12.36	14.85

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

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INTERNATIONAL CAPITAL MARKETS

Further downward pressure put on bunds

By Antonia Sharpe in London and Frank McGurty in New York

Although the Bundesbank's decision not to change official interest rates was widely expected, the news put further downward pressure on German government bonds, which had already received an early knock from stronger than expected west German industrial production figures.

The data showed a 2.2 per cent monthly rise in July, compared with market forecasts of between 0.5 per cent and 1.5 per cent and was seen as a further confirmation that the economy was growing rapidly and the Bundesbank would have even fewer reasons to cut official interest rates further.

Dealers said the central bank's decision to stick to a fixed rate of 4.85 per cent for its next two securities repurchase tenders added to the argument that its priority had shifted from further easing to managing smoothly the trough of the interest rate cycle.

GOVERNMENT BONDS

Mr Kit Juckes, of S.G. Warburg, said the shape of the German yield curve suggested that the market was still fairly relaxed about the monetary outlook. "Bunds are complacently priced given the likelihood that German rates will start to rise next year," he said. On Liffe, the September bund future fell 0.48 points to 91.27 in modest trading.

■ UK gilts outperformed their continental European counterparts thanks to a late rally which dealers had difficulty in explaining. Sterling's resilience in the face of a falling dollar and a newspaper report that 10-year gilt yields could fall to 7½ per cent were given as possible reasons.

The rise in gilts caused a further narrowing of the yield spread between gilts and bunds to 132 basis points, which forced more dealers to close their short positions. "The bears are being squeezed out of the market," said one analyst.

On Liffe, the December long gilt future was 3/32 higher at 101⅞ in the late afternoon, below the day's best of 102 1/16.

■ Elsewhere, Italian government bonds fell in nervous trading as a result of renewed infighting in the government. Italian futures fell by nearly a point. By contrast, French government bonds were steady following an uneventful monthly auction of OATs.

■ US Treasury bonds drifted lower yesterday morning as traders awaited today's report on August conditions in the labour market.

By midday, the benchmark 30-year government bond was down ¼ at 100 5/32, with the yield rising to 7.467 per cent. The two-year note was off 1/32 at 100 3/32, to yield 6.148 per cent.

The market was hoping today's employment data would provide it with clear-cut guidance on the strength of the economy. Beforehand, trading remained light, though a negative tone was cast over the morning's activity by fresh evidence of inflationary pressures in the manufacturing sector.

The National Association of Purchasing Management said the prices-paid component of its monthly survey had climbed to its highest level in six years. However, the overall index of business activity was weaker than expected, completing the pattern which emerged in a regional Chicago survey released on Wednesday.

The net impact on bonds was modest losses across the yield curve. Still, yesterday's data revealed nothing to change expectations about today's report. Economists are forecasting an increase in non-farm payrolls of about 225,000, suggesting a moderate pace of economic growth.

Ten-year issues in Canadian dollars

By Graham Bowley

The Canadian dollar market saw two 10-year eurobond offerings yesterday as borrowers took advantage of the recent revival in the underlying Canadian government bond market.

INTERNATIONAL BONDS

BNG launched a C$250m issue, priced to yield 22 basis points over the 6½ per cent Canadian government bond due 1994. Lead managers ABN Amro reported demand from retail investors in Belgium and Luxembourg but about 60 per cent of the bonds are expected to be taken up by European institutional investors.

The Canadian dollar market currently offers good swap opportunities, particularly at the long end, and investors in particular like the spread against the US market, syndicate managers said.

Ile-de-France launched a C$85m 10-year bond, priced to yield 16 basis points above the 6½ per cent Canadian government bond due 2004.

The eurobond market also saw a flock of other issues yesterday, mainly small, short-dated deals aimed at retail investors, including five US dollar offerings.

"This signifies that the dollar market will be the market of choice in the fourth quarter rather than more peripheral markets as borrowers go for safety," said one syndicate manager.

Ford Credit Europe tapped the US dollar market with a $200m three-year offering priced to yield 37½ basis points above the 6½ per cent 1997 Treasury. Syndicate managers said the deal was a success and lead manager Goldman Sachs said the bonds were mainly sold to Swiss retail investors.

Volvo Group Finance Europe also tapped the dollar market, with a $150m five-year issue priced to yield 56 basis points over the 6⅞ per cent Treasury 1999.

Syndicate managers said the pricing was ambitious for an unrated borrower and that the bonds were pitched at a less popular area of the curve. The spread widened slightly in later trade. However, lead manager Merrill Lynch said it saw significant interest from Swiss and Benelux retail investors and institutional investors.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Ford Credit Europe(a)	200	6.875	99.885R	Oct.1997	0.25R	+37½(6½%-97)	Goldman Sachs International
Krung Thai Bank(b)★‡	150	(b1)	100.00	Sep.2004	0.45	-	Goldman Sachs Singapore
Volvo Group Finance Europe	150	7.375	99.47R	Sep.1999	0.375R	+56(6⅞%-99)	Merrill Lynch International
Bladex(c)‡	150	(c1)	99.90R	Oct.1995	0.10R	-	Swiss Bank Corp.
Essar Gujerat(d)‡	50	(d1)	100.00	Jul.1999	undiscl.	-	Chase Investment Bank
YEN							
Province of Ontario★	10bn	4.25	100.00	Sep.1999	undiscl.	-	CS First Boston
WestLB Finance Curacao(a)★	10bn	4.22	100.00	Sep.1999	undiscl.	-	CS First Boston
D-MARKS							
Deutsche Ausgleichsbank‡	300	(e)	100.02	Sep.2001	0.20	-	DG Bank
GZB‡	400	(f)	99.59	Sep.2001	0.30	-	DG Bank
CANADIAN DOLLARS							
BNG	250	9.125	99.84R	Sep.2004	0.325R	+22(6½%-04)	ABN Amro Bank
Region Ile-de-France	85	9.00	99.31R	Oct.2004	0.325R	+16(6½%-04)	Paribas Capital Markets
ITALIAN LIRE							
PSK	150bn	11.00	101.125	Oct.1996	1.125	-	Swiss Bank Corp.
GUILDERS							
Bayerische Landesbank	250	6.375	99.70R	Oct.1997	0.1875R	+18¾(6¾%-97)	ABN Amro Bank
AUSTRALIAN DOLLARS							
Bayerische Vereinsbank	100	9.00	101.43	Oct.1998	1.75	-	ABN Amro Bank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Unlisted. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Short 1st coupon. b) Callable on coupon dates from Sep.99 at par. b1) 6-mth Libor +68bp for 1st 5yrs and +225bp thereafter. c) Long last coupon. c1) 3-mth Libor +50bp. d) Issue launched 6/7/94 was increased to $250m. Plus 46 days accrued. d1) 6-mth Libor +265bp. e) 6-mth Libor flat. f) 6-mth Libor +⅛%.

Canadian bonds top performers in August

By Graham Bowley

The Canadian government bond market outperformed the rest of the world's bond markets in August.

J.P. Morgan's government bond index shows Canadian bonds posted a return of 2.78 per cent, measured in local currency, followed by Australia with a gain of 1.51 per cent and the UK with 0.79 per cent.

Investors were attracted into the Canadian market "by favourable inflation figures, 10-year yields above 9 per cent, and real yields that are among the highest available in the bond markets", J.P. Morgan says.

The core European markets of Germany and France gained at the expense of the higher-yielding markets of Italy, Spain and Sweden. Interest rate rises in Italy and Sweden were seen by investors as "portents to rate rises by other continental European central banks", triggering losses across European markets.

Sweden, which saw a return of minus 0.93 per cent on the month, also suffered from investor concern over heightening political tensions ahead of the general election.

The worst performer in August was the Danish government bond market, with a return of minus 2.76 per cent in local currency. The average rate of return across all countries was minus 0.46 per cent.

The UK gilt market was boosted by economic data which pointed to low inflation, "banishing fears of an early rise in interest rates".

US Treasuries posted a gain of 0.13 per cent in August, with unhedged dollar-based investors benefiting from the dollar's recent decline.

Commodities fund launch delayed

By Antonia Sharpe

Unexpectedly strong interest from Japanese investors in a commodities fund which is about to be launched by BZW Investment Management (BZWIM) has prompted a delay in the publication of the pathfinder prospectus to allow time for it to get clearance from Japan's ministry of finance.

To tap Japanese demand, BZWIM needs to register the closed-end fund as a private placement with the MoF. The process includes translating the document into Japanese and answering MoF queries.

Mr Ronald Gould, the BZWIM managing director in charge of setting up the Jersey-based investment company, said the prospectus, due to be published next Monday, would now be released a week later.

The strong economic rebound in the US and parts of Europe, coupled with signs of a resurgence in inflation, has aroused investor interest in real assets, such as commodities, because of their characteristics as an inflation hedge and a play on economic growth.

"You will dampen risk and volatility in a portfolio by introducing commodities as an asset class," said Mr Gould.

In his view, an allocation of 3 to 5 per cent of total assets to commodities would achieve the best results. However, he estimates that in the UK, only a tiny amount is invested in commodities, while in the US, where investors are more comfortable with commodities, they only account for 1 per cent of pension fund assets.

BZWIM, which has around £50bn under management, will be investing in the fund, which is expected to attract at least £100m from institutional investors.

The benchmark for the fund will be the Goldman Sachs Commodity Index. Mr Gould hopes to outperform the index by up to 10 per cent by giving a greater weighting to industrial materials and energy, which should benefit the most from stronger economic growth.

The fund will use exchange-traded futures contracts to gain exposure to commodities but they will be re-packaged in the form of notes issued by highly-rated banks or through swap agreements with banks.

This buffer is designed to counter any discomfort among investors to direct exposure to futures and to allow institutions that are not able to buy futures to invest in the fund.

Greece names OTE banks

By Antonia Sharpe

The Greek government has appointed 10 foreign banks to act as global syndicate members on the international tranche of its planned partial privatisation of OTE, the Greek telecoms monopoly.

They are: ABN Amro, Banque Paribas, Bear Stearns, BZW, Deutsche Bank, James Capel, Lehman Brothers, Salomon Brothers, S.G. Warburg and Yamaichi. The syndicate will be managed by CS First Boston and Schroders, which were appointed joint global co-ordinators of the issue in May, along with National Bank of Greece.

The government hopes to raise around $1bn from the sale of 25 per cent of OTE's shares and the offer should take place before the end of the year. It plans to sell 75 per cent of the shares abroad.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	97.6200	-	9.37	9.31	9.24
Belgium		7.250	04/04	92.2000	-0.180	8.45	8.40	7.97
Canada *		6.500	06/04	85.4000	+0.300	8.76	8.70	8.94
Denmark		7.000	12/04	88.0700	-0.100	8.80	8.88	8.10
France	BTAN	8.000	05/98	102.3750	-	7.24	7.22	6.89
	OAT	5.500	04/04	84.4000	-0.130	7.86	7.81	7.29
Germany	Bund	6.750	05/04	96.2800	-0.460	7.30	7.24	6.85
Italy		8.500	04/04	81.5000	-0.600	11.77†	11.82	10.89
Japan	No 119	4.800	06/99	102.8290	-0.330	4.10	3.97	3.86
	No 157	4.100	12/03	95.9820	-0.190	4.73	4.65	4.58
Netherlands		5.750	01/04	89.5900	-0.280	7.32	7.29	6.91
Spain		8.000	05/04	82.2400	-0.190	11.06	10.96	10.25
UK Gilts		6.000	08/99	90-30	-9/32	8.26	8.18	8.16
		6.750	11/04	86-17	+12/32	8.44	8.53	8.42
		9.000	10/08	104-05	+10/32	8.49	8.55	8.48
US Treasury *		7.250	08/04	100-10	-3/32	7.20	7.22	7.09
		7.500	11/24	100-09	-3/32	7.46	7.47	7.39
ECU (French Govt)		6.000	04/04	84.4800	-0.020	8.41	8.39	7.79

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

BOND FUTURES AND OPTIONS

France

Germany

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	100.30	99.67	-0.73	100.30	99.35	50061	38597
Dec	98.50	97.90	-0.67	98.45	97.60	13353	41030
Mar	-	96.50	-0.75	-	-	0	100

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Spain

UK

Ecu

US

Japan

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Sep 1	Day's change %	Wed Aug 31
1 Up to 5 years (24)	120.18	+0.16	119.99
2 5-15 years (21)	140.43	+0.20	140.29
3 Over 15 years (9)	156.49	+0.34	155.96
4 Irredeemables (6)	179.06	+0.33	178.83
5 All stocks (60)	137.47	+0.21	137.25

FT FIXED INTEREST INDICES

GILT EDGED ACTIVITY INDICES

FT/ISMA INTERNATIONAL BOND SERVICE

UK GILTS PRICES

Other Fixed Interest

Cost cutting and restructuring behind 29% advance despite sales fall

Trimmer Rolls-Royce at £40m

By Paul Betts, Aerospace Correspondent

Rolls-Royce, the aero engine and industrial power group, yesterday reported a 29 per cent rise in pre-tax profits for the first half of 1994 despite a 14 per cent decline in sales.

The higher profits of £40m (£31m) reflected the company's cost cutting and restructuring drive, which offset continuing difficulty in the aerospace and industrial power markets. Sales fell from £1.75bn to £1.5bn.

Sir Ralph Robins, chairman, said he did not expect any improvement in market conditions until 1996.

The company's restructuring programme, however, involving the closure of six plants and the shedding of 6,500 jobs by next spring was running ahead of plan, placing the group "in a good competitive position to take advantage of the orders which are expected over the longer term".

"Conditions remain extremely challenging in all our markets, but our greater productivity coupled with the completion of the major part of our Trent civil engine development programme will enable us steadily to improve performance," Sir Ralph said. Trent engines will power the new Boeing and Airbus wide body airliners.

Sales in the group's aerospace activities fell from £1.06bn to £924m with profits before interest of £3m (£5m). However, the company expected the civil engine deliveries for the year to be similar to the 1993 level. As expected, military engine deliveries were lower.

Sales in the industrial power operations fell to £576m (£674m), while profits before interest rose to £37m (£35m).

The company's cost cutting drive has led to an improvement in operating margins to 9.9 per cent (8.9 per cent).

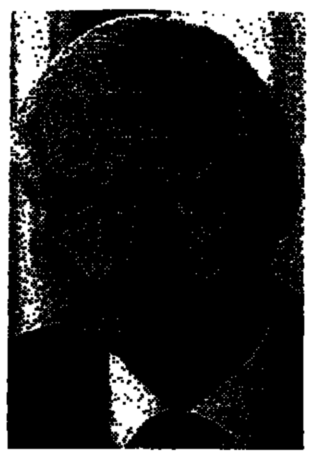
The current order book totalled £5.9bn, excluding a further £1bn of announced orders not yet subject to formal contracts, the company said.

The balance sheet remains strong with net cash of £309m at the end of June. Excluding last year's rights issue, net cash has improved by £134m over the last 12 months.

The interim dividend is held at 2p, payable from earnings per share ahead to 2.53p (2.21p restated).

● COMMENT

Although Rolls-Royce shares closed 8p down yesterday at 180p, the interim figures were in line with most City estimates. The company is still having to ride the bottom of the aerospace cycle which is unlikely to turn before 1996. However, extensive restructuring and productivity improvements should put it in a strong position to take advantage when the upturn eventually occurs – after a recession in the industry which started in 1990. The company has also continued to invest in expanding its aero-engine product range, which has placed it in a much stronger competitive position against its US rivals than in earlier industry cycles. But there are unlikely to be any short-term miracles and the company is likely to face another 12 to 18 months of hard slog before it finally sees some tangible improvement in its main markets. A full-year forecast of £100m pre-tax, against £76m last year, leaves the shares on a forward multiple of nearly 29 even after an 18p fall in two days.



Tony Andrews

Sir Ralph Robins: challenging market conditions remain

Body Shop exposé fails to shock

By Andrew Jack and Neil Buckley

The long-awaited article that has helped trigger controversy over the image of Body Shop International, the cosmetics and toiletries group, was published yesterday to the bemusement of investors and ethical researchers.

"Shattered Image", an article in US-based Business Ethics magazine written by Mr Jon Entine, highlighted a series of alleged inconsistencies between Body Shop's marketing of its espoused ideals and its practices.

Some commentators expressed doubts about the potency of its revelations, while Body Shop flatly rejected its contents.

Mr Entine said there had been a "wide gap" between promises and delivery to Body Shop's franchisees. He accused the company of having used off-the-shelf product formulae filled with non-renewable petrochemicals.

He suggested there had been quality control problems, that only a tiny amount of its ingredients came through its "trade not aid" programme and that its charitable contributions fell short of company statements.

He reported claims that Body Shop invented stories about the exotic origins of some of its products. He said it had a history of legal threats against journalists seeking to publish details behind the "gloss".

Body Shop yesterday called the article "recycled rubbish" and hinted at possible legal action by saying it was reviewing its position and would defend its reputation. "It is a mish-mash of defamatory and actionable falsehoods. It contains distortions, shoddy reporting and views of several unqualified or biased sources or so-called experts."

Business Ethics decided not to publish or circulate its edition in the UK following threatened legal action by Body Shop, but a number of analysts have obtained details.

Mr Peter Webster, executive secretary of the Ethical Investment Research Service, said: "It doesn't seem to add up to its claims. It doesn't sound like the end of an institution."

He said it did not contain many of the positive aspects of the company's activities, but said his organisation was planning to complete a full report by next week on Body Shop.

Mr Rod Whitehead, analyst at Goldman Sachs, said: "I felt that if [the article] came up with some fairly serious allegations, and these were given a fair amount of publicity in the popular press, that could affect sales quite badly. But my impression is that they have not come up with sufficiently new and serious allegations."

Vickers ahead but shares fall on recovery warning

By Andrew Bolger

Shares in Vickers fell 7p to 188p yesterday after the engineering group, which makes tanks and Rolls-Royce cars, said it was seeing only a patchy recovery.

Pre-tax profits nearly doubled, from £8.3m to £15.9m, but were still slightly below market expectations. Sales were flat at £330m (£331m).

Sir Richard Lloyd, chairman, said the recovery in results which started last year had continued, but this was more to do with plant rationalisation and efficiency measures than improvements in markets.

Sales of Rolls-Royce cars rose slightly, from 683 to to 701, and higher sales in the UK and east Asia (excluding Japan) offset poor sales in North America.

Sir Colin Chandler, chief executive, said he hoped by the end of the year to reveal the outcome of talks the group has been having with other manufacturers over collaboration on new model programmes.

Vickers will not say who it has been talking to, but is known to have been discussing the purchase of V12 engines and other components from Mercedes-Benz of Germany.

Cosworth, the high-performance engine subsidiary, is still suffering from declining demand for special Ford Escorts and Scorpios, but is investing in a new factory for its castings business and an emission centre.

The group's defence systems business now has a total order book of £1.5bn, following the government's recent confirmation of the follow-on order for 259 Challenger 2 tanks, in addition to the 127 tanks ordered in 1991. Sir Colin said the strength of this order book made the defence business a much stronger and more attractive partner when considering collaborative projects.

The medical division's contribution fell, partly because of continued uncertainty over the proposed Clinton healthcare reforms and tough trading conditions for distributors in continental Europe.

The propulsion technology division continued to suffer from the depressed state of the aerospace business, but on the marine side the Swedish-based KaMeWa company had an "outstanding" six months.

Earnings per share improved to 3.6p (1.9p).

The interim dividend rose to 1.75p (1.25p).

● COMMENT

The trading statement was deliberately downbeat, to lower expectations about the speed of likely recovery. But Vickers still looks in a strong position, following last year's £50m rights issue and the recent award of the crucial Challenger order. Capital investment is being increased – particularly at Cosworth – and there is some scope for margin improvement at the tank factories. On a prospective multiple of 19, the shares cannot be called cheap, but a modest upturn in demand for cars will sharply improve the bottom line. The shares are unlikely to move decisively until the group reveals its decision over collaboration on the next generation of luxury cars.

SE considers short selling regulation

By Simon Davies

The Stock Exchange is to consult stock market participants on the potential regulation of short-selling, in the wake of complaints over the impact of speculative short sellers on recent share offers.

The Exchange said it would issue a consultative document during September to tap views "on proposals for dealing with concerns" over short selling.

Short sellers drive down the share price of companies which are arranging substantial share issues by selling shares that they do not own. Speculators can then balance their "short" positions by buying cheaper shares through the secondary market issue.

SG Warburg, brokers to the Treasury for last year's BT3 share issue, tried to persuade the Stock Exchange to implement rules to prevent substantial investors from driving down the British Telecom share price prior to the offer. The request was turned down under pressure from a number of large institutions.

However, Mr Andrew Large, chairman of the Securities and Investments Board, gave a speech last July urging the Exchange to introduce rules governing short selling prior to secondary market issues.

The Exchange cited "concerns expressed at the time of the British Telecom and Wellcome share issues", both more than 14 months ago, as the driving force behind its latest decision.

A response to the consultation process is likely by the end of this year.

Michael Page ahead sharply to £4.35m

By Peter Pearse

Shares in Michael Page Group rose 24½p to 114p as the international recruitment and executive selection consultant announced pre-tax profits more than doubled from £1.57m to £4.35m for the first half of 1994.

Mr Terry Benson, chief executive, said "favourable trading conditions had helped all the UK businesses exceed expectations". This was in contrast to the "mixed progress" on the Continent.

Group turnover expanded from £33.4m to £34.2m. The previous year's figure, however, included £1.16m from LBW France, which has since been sold. Operating profits were £4.19m, against £1.49 – including losses of £109,000 from LBW France.

Within the UK, turnover was divided as to 70 per cent permanent recruitment and 30 per cent temporary. Revenue in the permanent side rose more than 51 per cent and the temporary side "higher than that".

Michael Page Marketing and Sales expanded further and, as a result, Sales Recruitment Specialists was set up to provide sales personnel at the lower end of the pay spectrum. Mr Benson said the accountancy side expected to open two more offices by December, bringing the total to 10.

In mainland Europe, profits at the French operations enjoyed a substantial increase, "being well past the worst" as the economy recovers. Mr Benson was more cautious about Germany and the Netherlands, where trading conditions continued to be difficult. The outlook, however, seemed brighter, and another German office is to be opened in Frankfurt.

The group is also planning to open an office in Hong Kong. In spite of the start-up costs, Mr Benson is expecting long-term rewards from the Asian market.

The interim dividend is raised to 0.8p (0.6p), payable from earnings sharply up at 4.45p (1.65p) per share.

Motor side helps Barr & WAT advance 40%

By Peter Pearse

Pre-tax profits at Barr & Wallace Arnold Trust, the motor distribution and leisure and holiday group, advanced 40 per cent from £663,000 to £928,000 in the half-year to June.

The rise was achieved in spite of greater losses in leisure and holidays and on the back of a 39 per cent increase at the operating level in the motor distribution side. Here profits emerged at £1.98m (£1.42m) on divisional turnover up at £82.2m (£68.2m).

Mr John Parker, chief executive since May when Mr Malcolm Barr, chairman, ceded half the dual role, said new car sales, were ahead of the market.

The group took steps to develop its used cars sales operations, which, including the concomitant financing and MOT sides, outperformed the new car side.

As part of plans for "controlled expansion", the group bought in August a Mercedes dealership in Bristol for £3.68m, bringing the total to eight dealerships.

Mr Parker said he was brought in to "look at changing the culture of the company", though he stressed that Mr Barr was the only family member on the board and that the family was being proactive in the process. The group has 2.45m ordinary shares and almost 10m A non-voting.

The leisure and holidays side incurred losses of £820,000 (£538,000) on turnover of £31m (£30.2m).

Group turnover rose 15 per cent to £124m (£108m). Earnings were 4.8p (3.5p) and the interim dividend is held at 3p.

Compass

Mr Francis Mackay, chief executive of Compass, yesterday added the title of deputy chairman of the acquisitive contract catering group. In March, Compass appointed Mr John Thomson as its non-executive chairman following the retirement of Mr Ingram Lenton on grounds of ill-health.

Restructuring behind rise to I£5m at Waterford Wedgwood

By John McManus in Dublin

Waterford Wedgwood, the crystal and tableware group, yesterday announced figures described by Mr Tony O'Reilly, chairman, as its "best first-half results since 1987".

Mr O'Reilly said the increase in pre-tax profits, from I£400,000 to I£5.1m (£5.04m), "fully justifies the actions, initiatives and strategies implemented in the past two years".

Sales rose I£13.9m to I£149m, while profits before interest more than doubled to I£7.9m (I£3.6m). Lower interest charges of I£2.8m (I£3.2m) and a higher tax charge of I£800,000 (I£300,000) left retained profits of I£4.3m. The group has taken a charge of I£1.8m for restructuring in both the crystal and china divisions.

Wedgwood sales were up 8 per cent to I£104m, while operating profits more than doubled to I£4.5m – the first increase in three years. Wedgwood's earthenware pottery subsidiary, Johnson Brothers, continued to perform badly, with sales reduced by stiff competition.

The improved operating profits at Wedgwood reflected last year's restructuring and improved sales in the US and UK. Sales in Japan remained steady following price reductions, the company said.

Sales of crystal rose 16 per cent to I£44.9m and operating profits more than doubled to I£3.4m due to strong sales in the US and Ireland. However, sales growth of Waterford's mid-market Marquis range tapered off after two years of strong growth.

Earnings per share amounted to 0.6p (0.02p).

● COMMENT

Mr O'Reilly hinted strongly at a resumed dividend payment at Waterford Wedgwood's annual meeting earlier this year. On the basis of these interims, a nominal but welcome dividend of about 0.5p looks on the cards. The reduction in debt to £58m puts gearing at 48 per cent. The company is not fully out of the woods, however, as shown by the £1.8m restructuring charge, and analysts are expected to leave their forecasts unchanged at this stage. Most are opting for full-year pre-tax profits of between I£22m and I£23m, equivalent to earnings of just under 3p – a prospective p/e of 23.5, reflecting recovery prospects.

Stakis buys only casino on Isle of Man

Stakis, the hotels and casinos group, has bought the only casino on the Isle of Man for £5.9m.

The Palace Hotel and Casino, which will be renamed the Stakis Hotel and Casino, includes a 135-bedroom hotel, a bingo hall and a nightclub. Of the cost of the purchase, £3.16m will be used to repay the acquisition's borrowings.

Stakis, which has been granted a 10-year gaming licence from the Manx government, plans to spend £1m on refurbishment.

United Carriers falls to £1.2m at midway

By Caroline Southey

Poor trading conditions pushed down interim pre-tax profits at United Carriers, the parcel and freight company which was floated in February.

In the half year to July 2 pre-tax profits fell from £1.6m to £1.2m on turnover up from £52.7m to £59m.

Operating profits, which included a £364,000 loss on discontinued operations last time, were down from £1.98m to £1.63m.

Earnings per share fell from 5.8p to 3p, adjusted to reflect the scrip issue in February.

Mr Allan Binks, chairman, said that as foreshadowed in the profits warning in May, the company's UK parcels and freight network suffered a sharp drop in volumes.

The division had secured new customers, he said, but any benefits from the additional business would not be felt until next year.

Although volumes had improved in May, Mr Binks said there was "no reason to change earlier expectations" that volumes would remain flat during the second half of the year.

Operating profits in the specialist transport and distribution division were also lower, although there were signs of a steady improvement in the UK and Continental car markets.

Margins in this division would be improved in the second half by the acquisition of 100 large trailers which would reduce spot hiring, Mr Binks said.

The company has net assets assets of £29.1m (£24.7m) and gearing of 17 per cent.

United Carriers shares closed unchanged at 103p yesterday.

On the day of the profits warning in May, the shares fell by 33p to 115p. The flotation price was 153p, which produced a market capitalisation of £51.8m.

This announcement appears as a matter of record only

August 1994

wates
leisure

£20m Expansion Capital Package

for

WATES LEISURE LIMITED

Negotiated, Led and Arranged by
Phoenix Fund Managers Limited

Institutional Equity Underwritten by
The Phoenix Development Capital Fund

Senior Debt Provided by
Bank of Scotland

Legal Advisers
Herbert Smith (Phoenix Fund Managers Limited)
Lovell White Durrant (Bank of Scotland)
Norton Rose (the company and its existing shareholders)

Reporting Accountants
Coopers & Lybrand

Financial Advisers to the Company
Cazenove & Co.

Auditors to the Company
Slater, Chapman & Cooke

Phoenix Fund Managers Limited
A member of IMRO

Rathbone improves 22%

Rathbone, the quoted private banking and asset management group, increased pre-tax profits 22 per cent to £3.07m, against £2.53m, for the first six months of the year.

Turnover rose from £8.27m to £9.19m, while earnings per share gained 17 per cent to 10.55p (8.98p).

The interim dividend is raised to 3p (2p).

The company, which has made two acquisitions of fund management groups in the period, said it would continue to look out for further opportunities.

Mr Michael Bryant, marketing director, said: "With over £1bn under management, we are looking to attract other funds, increasingly from overseas."

Rank Leisure gets the Zoo & the Cage

Allied Leisure, the nightclub and ten-pin bowling group, has sold two nightclubs, The Zoo & the Cage in Bournemouth and The Venue in Poole and the Colonnades bar in Poole to Rank Leisure for a total of £4.5m

The premises contributed profits of £690,000 before interest and tax for the 11 months ended June 19.

US giant takes small house

By Peter Pearse

American giant gobbles up English miniature and, contrary to mythic expectation, everyone says they are all going to live happily together ever after.

This was the tale being told yesterday as Stanhome, a US marketer and distributor of consumer products, giftware and collectibles, added another collectible line to its collection.

It made a recommended cash offer of 160p a share for Lilliput, the Cumbria-based maker of hand-painted miniature china cottages, casting a ray of sunshine on to a niche in the small housing market.

The bid values Lilliput, which floated less than a year ago in October, at £37.2m. At the flotation price of 135p it was valued at £31.4m.

Yesterday morning the shares opened at 92p.

As a result Mr John Russell, Lilliput chairman and chief executive, said that he would have done the deal no differently in an ideal world.

He felt he had fulfilled his obligations to shareholders and, because Lilliput will stand alone within Stanhome, to the future of the company and its staff.

Mr Russell, who had 600,000 shares, is set to make £1m gross, while Mr DG Tate, the group's founder who had some 3.8m shares, will gain about £6m. Both men made substantial amounts at the time of the float.

At the time of the morning's announcement, Stanhome had received acceptances in respect of 10.3m shares, or 44.4 per cent, from directors, their wives, North of England Ventures and Lazard Ventures.

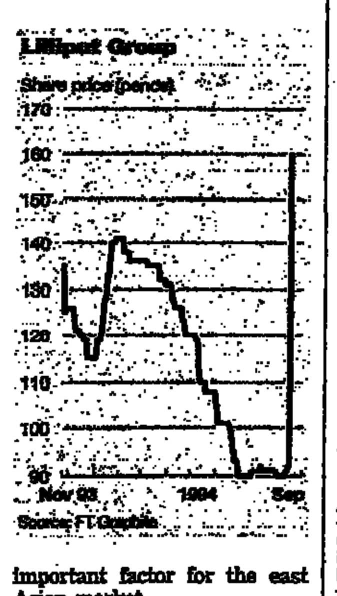
By 4.30pm Stanhome spoke for 57.9 per cent, having bought a further 13.5 per cent at 158p.

Stanhome has three divisions: Lilliput will fall within Enesco Worldwide Giftware, which in 1993 contributed 49 per cent of the $751m (£485m) group sales. Enesco designs and markets giftware, licensed lines and collectibles and sells them through some 50,000 retail outlets mostly in the US.

Mr Bill Seawright, Stanhome chief executive, said most of its collectibles, in particular its Precious Moments line, were made in China. Lilliput's products are made in the UK, an important factor for the east Asian market.

There would be synergies in US distribution – cottages are "hot" in the US, according to Mr Seawright – and Stanhome wanted a "neat, tidy" company as a foothold in Europe, a market it wanted to expand into.

He said that collectibles was a growing market, especially in the US and particularly for women.



DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Barr & Wallace ....int	3	Oct 28	3	-	11
British-Borneo ....int	2.667	Oct 27	2.667	-	7.1
Cattle's ....int	2.15	Nov 16	1.9	-	5
English & O'seas........int	0.3	Oct 27	-	-	0.5
Independent News........int	3‡	Oct 6	2.67*	-	7.33*
Ladbroke ....int	2.4	Dec 1	4.92	-	6
Lilliput ....int	1.65	Oct 14	-	-	0.6
Linx Print Tech ....fin	0.75	Nov 29	1.73	1	2.06
Page (Michael) ....int	0.8	Nov 11	0.6	-	2.1
Quarto § ....int	2	Nov 21	2	-	6
Rathbone Bros ....int	3	Oct 10	2	-	7.5
Reckitt & Colman ....int	6.95	Jan 6	6.45	-	17.55
Rolls-Royce ....int	2	Jan 9	2	-	5
Silvermines ....int	0.25‡	Oct 6	nil	-	0.5
T&N ....int	7.5	Nov 4	10.86	-大	10.85
United Carriers ....int	1.6	Oct 21	-	-	-
Vickers ....int	1.75	Oct 19	1.25	-	3
Williams Hldgs ....int	5.25†	Oct 10	5	-	12.75

Dividends shown pence per share net except where otherwise stated. †On increased capital. *Equivalent after allowing for scrip issue. §USM stock. ‡Irish pence. 大Final of not less than 3.35p indicated.

MONTHLY AVERAGES OF STOCK INDICES

	August	July	June	May
FT-SE Actuaries Indices				
100 Index	3178.5	3036.6	2980.3	3089.2
Mid 250	3736.8	3537.1	3508.8	3705.7
350 Share	1604.5	1529.6	1505.0	1566.8
Non-Financial	1726.77	1642.28	1618.42	1690.44
Financial Group	2197.58	2129.92	2111.15	2164.18
All-Share	1591.47	1517.70	1497.44	1558.27
Eurotrack 100	1379.19	1347.82	1383.71	1447.64
Eurotrack 200	1430.90	1385.41	1380.09	1462.03
FT-A World Index	178.75	183.94	173.49	172.44
FT Indices				
Government Securities	91.86	92.67	92.08	94.26
Fixed Interest	110.02	110.84	109.28	112.72
Ordinary	2485.9	2370.7	2343.3	2455.0
Gold Mines	1963.17	1931.55	1944.97	1881.95
SEAQ Bargains(5.00pm)	29,402	23,977	23,618	25,495

	Highest CloseAug	Lowest CloseAug
FT-SE 100	3265.1 (26th)	3097.4 (1st)
FT-SE Mid 250	3816.6 (31st)	3641.4 (1st)
FT-SE 350	1645.1 (26th)	1563.6 (1st)
FT-A All Share	1630.33 (26th)	1551.22 (1st)
Ordinary	2552.0 (26th)	2405.9 (1st)

COMPANY NEWS: UK AND IRELAND

Williams shares aided by upbeat statement

By Peggy Hollinger

Williams Holdings' shares yesterday recovered from their recent weakness and jumped 3 per cent to 384p as the fire protection, security and building products group offered the market an upbeat assessment on trading.

Mr Nigel Rudd, chairman, said Europe was showing better-than-expected growth, while "economic indicators for the second half in the UK and North America continue to be favourable".

However, he warned that the pace and duration of any economic recovery remained uncertain.

The market welcomed Mr Rudd's statements as encouraging, but still more cautious than those being made by other industrial conglomerates. "They are at pains to make sure people do not get carried away," said one analyst.

Mr Rudd's comments came as the group announced a 13 per cent increase in pre-tax profits to £86.2m for the six months to June 30. The outcome, after reorganisation costs of £4m, were largely in line with expectations. Sales were 10 per cent ahead to £848.7m.

Mr Rudd emphasised the group's organic growth, progress on margins, and improving cashflow. Profits from continuing businesses rose by 18 per cent to £98.7m, on sales 13 per cent ahead to £639m.

Cashflow – for which Williams has often been criticised – was held at similar levels to last year, before dividends, disposals and acquisitions. Given the 40 per cent increase in capital expenditure and higher tax, the underlying cashflow position was better, Mr Rudd said, and was expected to improve further in the second half.

Williams has bought three businesses since the year-end for £110m. Provisions for restructuring the largest acquisition, Solvay, would come to just over £5m, leaving Williams with total charges this year estimated at more than £9m.

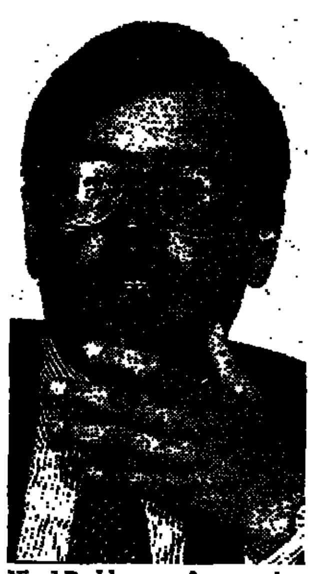
Mr Rudd said the group hoped to use the proceeds of the £267m rights issue in May to complete further purchases – particularly in fire protection and building products – before the end of the year.

Profits at the security division advanced 31 per cent to £16.5m, thanks to the Corbin Russwin acquisition.

Fire protection increased profits by 21 per cent to £25.7m. North American building products returned a 17 per cent profits advance to £19.6m, while the European business increased profits by 10 per cent to £34.9m.

The interim dividend is increased to 5.25p (5p), payable from basic earnings per share up 8 per cent to 9p.

Excluding exceptionals, earnings rose by 12 per cent to 9.6p.



Nigel Rudd: pace of economic recovery remains uncertain

● COMMENT

The shares jumped today, less on the back of Mr Rudd's guarded optimism than on the relief that Williams appears to be holding its margins in spite of higher raw material prices. There is also the feeling that Williams may have finally laid to rest cash flow doubts. Forecasts are for £200m in profits this year, with the shares on a prospective p/e of about 18. Although Williams offers solid long-term potential, the shares appear to be fairly priced right now.

Independent Newspapers advances to I£15.2m

By John McManus in Dublin

Independent Newspapers, the Irish newspaper group controlled by Mr Tony O'Reilly, reported a rise in pre-tax profits from I£14.6m to I£15.2m (£14.1m) for the half year to June 30.

The increase reflected better margins in Irish publishing operations, improved trading conditions overseas and first-time contributions from acquisitions in the UK and South Africa.

Independent's Irish operations accounted for I£64.5m (I£63.3m) of turnover of I£96.6m (I£81.5m), and contributed I£10.6m (I£9.4m) to operating profits of I£15.8m (I£11.7m). Margins were enhanced by rationalisation and increased advertising revenue, according to Mr Liam Healy, chief executive.

Independent has a 29.9 per cent stake in Newspaper Publishing, owner of the UK titles, The Independent and The Independent on Sunday. Bought for I£23.3m last February, the stake is treated as an investment and was the main cause of a rise in net interest costs from I£751,000 to I£978,000.

Earnings per share were 9.28p (11.93p) and the interim dividend goes up from an adjusted 2.67p to 3p.

● COMMENT

The strong performance of Independent's core Irish publishing operation makes it a good play on the recovery prospects of the Irish economy. With improving advertising revenues feeding through, full-year profit forecasts of about I£32m seem a little on the low side. Recent circulation figures show that Independent's titles dominate the Irish daily, evening and Sunday markets. In the second half the group will make almost half its operating profits outside Ireland, marking its transition into an international media group. The prospective p/e is nearly 16 based on yesterday's closing price of 305p. With the growth prospects, especially in South Africa, the shares still look reasonable value.

Engineering group confirms interest in German vehicle parts maker

Strong demand lifts T&N to £61m

By Tim Burt

T&N, the engineering and motor components group, yesterday confirmed it was considering a bid for Kolbenschmidt, the German vehicle parts manufacturer. Mr Colin Hope, chairman and chief executive, said T&N had held talks with Metallgesellschaft, which holds 47 per cent of Kolbenschmidt, but failed to agree a price.

Announcing a sharp increase in first-half profits, Mr Hope warned that a deal could be hampered by possible cartel problems in Germany, where the enlarged group would control up to 40 per cent of the piston products market.

Buoyant demand helped lift pre-tax profits from £39.4m to £61m, on turnover ahead 27 per cent at £985m (£774m) in the six months to June 30.

Although operating profits rose to £76.3m (£54.2m), the improvement was dented by increased asbestos-related costs of £13.9m (£9.8m) as the group topped up its liability provisions against future legal costs and compensation claims.

Asbestos pay-outs and the second instalment on its £100m acquisition of Goetze, the German piston ring producer, contributed to negative operating cash flow of £6.9m, compared with a £33.3m surplus.

In a bid to strengthen its balance sheet and reduce borrowings, the group announced an enhanced scrip alternative to its interim dividend of 7.5p (10.85p). If all shareholders opted for the scrip – involving new ordinary shares to a value of 11.25p for each share held – T&N would retain cash of £46m: a saving of £37m on the dividend pay-out and £9m of advance corporation tax. It also promised a final cash dividend of not less than 3.35p if the scrip is taken up.

Mr Hope said savings from the scrip would help reduce the group's ACT problem, caused by having to use unrelieved UK profits to cover asbestos liabilities in the US.

Earnings per share, meanwhile, rose from 7.7p to 4.8p.

● COMMENT

T&N has successfully exploited the upturn in vehicle demand and achieved double-digit profit margins two years earlier than most analysts expected. But it has an Achilles' heel – cashflow. The burden of asbestos compensation and rising capital expenditure threatens to overshadow the group's performance in outstripping profits forecasts by 20 per cent. The enhanced scrip – designed to save cash – looks attractive at first glance but risks diluting future earnings per share, as does the prospect of funding further acquisitions through paper. Although full-year pre-tax profits are expected to reach £115m, the shares look somewhat full on a forward multiple of 17.1, despite the strong growth potential.

Compensation provision 'clear in 10 years'

A sharp increase in asbestos-linked personal injury claims has forced T&N to make record compensation payments in the first half of this year, writes Tim Burt.

The company, which as Turner & Newall was formerly Britain's largest supplier of asbestos, paid claimants a total of £22.1m in the six months to June 30, compared with just £3m last time.

Mr Colin Hope, chairman and chief executive, said the sevenfold increase reflected the group's determination to settle as many outstanding cases as possible before a new compensation framework came into force in North America. Under the framework, claimants should avoid lengthy legal action by receiving fixed compensation payments for various forms of asbestos-linked illness.

The first-half compensation payments were paid from balance sheet provisions, which fell from £38.4m at the year end to £34.9m at the half-way stage.

Mr Hope predicted those provisions would decline gradually and could be wiped out altogether within 10 years. "The beneficial effect on gearing will be significant and it will help our future results enormously," he said.

Cattle's restricted by £1.76m closure costs

By Christopher Price

A good performance from its consumer credit business helped Cattle's (Holdings) lift interim pre-tax profits, before exceptional items, by 22 per cent to £8.45m, against £6.9m.

However, after taking a £1.76m charge against the closure of its lossmaking Swinton insurance franchise operation, the outcome showed a slight decline to £6.69m.

Consumer credit turnover rose 11 per cent and contributed £86.1m (£77.8m) to a total of £104.2m (£98.7m), an increase of 6 per cent.

Mr Edward Cran, managing director, said that the continued improvement in the Shopacheck home collected credit business reflected a slow return of confidence among the group's 280,000 households. Cattle's has an estimated 20 per cent of the weekly collected credit market.

Mr Cran added that the closure of its Swinton operations was likely to be followed by the run-down of its other non-core activities, such as a small travel agency business. "We have positioned ourselves firmly in financial services and plan to continue this process," he said.

Earnings per share slid to 3.7p (4.8p). An interim dividend of 2.15p (1.9p) is declared.

Quarto static despite lacklustre book market

By Caroline Southey

Quarto Group, the USM-traded publishing and printing services company, saw sales advance 17 per cent at the interim stage despite a weak UK book market.

Pre-tax profits in the six months to June 30 rose from £1.63m to £1.67m on turnover ahead to £22.7m (£19.5m).

Operating profits improved to £1.91m (£1.86m).

Mr Laurence Orbach, chairman, said sales had been affected by a shortfall in the UK publishing business but, based on current order books, he expected an improvement in core publishing activities in the second half.

The effect of destocking by leading UK book retailers "had been profound" in the first six months but he believed this was temporary.

Turnover in the US, which accounts for 53 per cent of total sales, had been strong, boosted by a first time contribution from Front Line Art Publishing, a California-based publisher of art prints and posters, acquired in May.

Earnings per share fell from 5.4p to 4.8p, reflecting extra shares in issue following the £9.5m rights issue in September. An unchanged interim dividend of 3p is declared.

Production rise helps Brit-Borneo

By Robert Corzine

A 31 per cent rise in production helped British-Borneo, the oil and gas exploration company, offset lower oil prices and boost net profits for the six months to the end of June to £4.36m, a 49 per cent increase on the previous £2.94m.

Earnings per share were 9.7p, also up 49 per cent.

The value of oil and gas sales rose 34 per cent to £17.5m (£13.1m), although the average oil price for the period fell from £13.20 to £9.84 a barrel.

The company was helped by its strong position in natural gas, especially in the US, where prices firmed during the first half. Gas accounts for 80 per cent of British-Borneo's production revenues.

Mr Alan Gaynor, chief executive, said the company was encouraged by its acquisition earlier this year of a 50 per cent stake in an onshore field in Cuba, its first big international diversification away from UK and US markets.

An unchanged interim dividend of 2.667p is declared.

Hartstone directors lift collective stake

By Peggy Hollinger

Four Hartstone directors have increased their collective stake in the hosiery and leathergoods group by more than seven times following the £30m rescue rights issue.

The company announced yesterday that the four directors, including Mr Shaun Dowling, chairman, had increased their holding from 71,133 to 595,000 shares.

The directors both took up their entitlements through the 2-for-1 rights at 15p and bought shares in the market at 15p and 14½p.

The largest shareholder on the board is Mr Dowling, who now holds 500,000 shares, compared with 50,000 before the cash call. He took up 100,000 new shares in the rights, and purchased a further 350,000 at 15p in his role as sub-underwriter.

The other directors who increased their stakes are Mr John Hunter, chief executive, with 40,000 shares (10,000), Mr Stephen Oakley, finance director, with 30,000 (6,000) and Mr John Padovan with 25,000 (5,133).

At Hartstone's annual meeting yesterday, Mr Dowling warned that the US leathergoods business was suffering from lower demand and the planned cutbacks under the restructuring.

Sales were at lower levels than last year, he said. Hartstone was confident trading would pick up in the second half, however.

The Spanish hosiery business, which may be sold at some stage in the future, was performing satisfactorily, he added.

Airsprung £9m expansion

Shares of Airsprung Furniture jumped 18p to 255p after the Wiltshire-based group accompanied a sizeable acquisition with a cautiously optimistic statement on current trading.

Airsprung is paying up to £9m cash for Intasco and Mensaco, both suppliers of components and finished products to furniture markets. Initial consideration is £7.16m with the balance on a performance-related basis. The eventual total will be met from existing resources and facilities.

In the year to June 30, Intasco reported pre-tax profits of £567,000 on sales of £3.66m; Mensasco made £703,000 pre-tax on turnover of £4.92m. Trading between the two companies, which were under common ownership, amounted to £1.31m.

Airsprung's trading since its March year-end had remained difficult, Mr John Pierce, chief executive, said, but the first quarter had shown a "satisfactory" increase in sales and profits.

NEWS DIGEST

Hartons cuts losses to £0.33m

Hartons Group, the distributor of semi-finished plastics, reduced pre-tax losses from £1.88m to £325,000 for the six months to June 30.

Turnover dropped 22 per cent from £33.1m to £25.7m, largely because of the disposal of a French subsidiary in March. Turnover for continuing operations rose slightly from £23.5m to £24m.

Losses per share worked through at 0.7p (2.8p) and no dividend is declared.

Silvermines

Following the acquisition in March of Molynx, the closed-circuit television company, Silvermines, the Dublin-based electrical services and property group, trebled pre-tax profits from I£251,000 to I£761,000 (£750,000) in the six months to June 30.

Turnover jumped from I£12.3m to I£20.2m. Earnings emerged at 1.23p (0.5p) and a 0.25p dividend is declared.

Linx

A "significant improvement" in the second half enabled Linx Printing Technologies to report a pre-tax profit of £332,000 for the year to June 30.

The outcome amounted to less than a quarter of the £1.43m achieved last time, but reflected "an encouraging second six months of trading" following the deficit of £391,000 incurred in the first half, directors said.

Turnover of the group, which manufactures continuous ink-jet printers, fell 9 per cent to £10.9m (£11.9m).

Earnings emerged at 1.7p (7.1p) and a recommended final dividend of 0.75p (1.73p) makes a total of 1p (2.08p) for the year.

Ennex International

Ennex International, the Dublin-based mineral exploration company which is quoted on the USM, announced a profit of \$85,000 (£55,000) in the first half of 1994 against a loss of \$82,000.

Exploration expenditure amounted to \$374,000, of which \$230,000 was contributed by joint venture partners. Working capital at June 30 was \$3.4m, including cash of \$3.6m. Earnings were 10 cents (losses 10 cents) per share.

English & Overseas

English & Overseas Properties is to pay its first interim dividend since 1991, after lifting pre-tax profits from £12,000 to £353,000 for the six months to the end of June.

The company, which saw turnover rise from £1.7m to £1.84m, said the increase in profits came from two main areas: increased rental income, both from properties developed by the group and from properties bought last year, and the sale of an investment property in Gateshead.

Investment properties are now valued at £26.8m in the balance sheet, compared with £1.43m at end-June 1993.

Earnings per share worked through at 0.55p (0.05p); the interim dividend is 0.3p.

United Industries

United Industries, the precision tools and springs maker, has sold its Scandura Railko offshoot – just five months after its acquisition as part of a package from BBA Group.

The lossmaking business, which makes heat shields and gasket materials, is being sold to Hofland (UK), a subsidiary of DNI Holding of the Netherlands, for £605,000. United will retain debtors and creditors, estimated to be worth £200,000.

CRP Leisure

CRP Leisure plans to raise £900,000 through a placing and open offer to repay debt and fund acquisitions.

The USM-quoted company, whose only active subsidiary makes theatre scenery, is issuing 20m shares at 5p with a 5-for-4 clawback. The shares yesterday closed down 1p at 6p.

Shareholders, including the 14.2 per cent holding of RA Colman (North Wales), intend to take up their entitlements to a total of 5.84m shares. A further 4.23m shares have been conditionally placed with Colman, which could leave it with a holding of 25.7 per cent.

Tate & Lyle

Tate & Lyle has acquired PL Transtore from Acatos & Hutcheson for £1.9m cash.

PL, which provides specialist storage and transport services to Acatos and third parties, will form part of Tate's United Molasses division.

Allen

Shares in Allen, the Greater Manchester-based construction group, rose 11p to 176p yesterday following its announcement of a good start to the year.

Over the summer it had obtained contracts valued at £21.3m, turnover at its Speedy Hire Centres was 40 per cent above the same period last year and housing reservations were up 13.5 per cent.

Fyffes

Fyffes, the Irish fresh fruit importing and distribution group, has acquired a 33 per cent stake in Sofiprim, a French fresh produce company.

The group is understood to have paid between I£5m and I£6m (£5.94m) for the stake, its fifth purchase in mainland Europe in a 12 month I£45m spending spree.

SmithKline Beecham PLC
Floating Rate Unsecured Loan Stock 1990/2010
Interest Rate 5.3125% per annum
Interest Period 1 September 1994 to 1 December 1994
Midland Bank plc
Agent Bank

NEWS IN BRIEF

MANGANESE BRONZE Holdings is selling LTI Homer, its fuel tanks offshoot to Wilmid for an undisclosed sum, resulting in an exceptional loss which will be provided for in the accounts for the year to end-July 1994.

REGAL HOTEL Group has acquired a 50 per cent interest in the Etrop Grange Country House Hotel, Greater Manchester, for about £1m cash.

RIVER & MERCANTILE Trust has sold 49.9 per cent of River & Mercantile Investment Management to Beckwith Asset Management for £4.3m cash.

SCI is selling Cambridge Industries, a supplier of consumer satellite equipment, to its management in a deal valued at up to £17m.

TEMPLETON EMERGING Markets Investment Trust will convert its C shares into ordinary shares and new warrants on September 9. The record date for conversion will be September 6.

ROLLS-ROYCE
HALF YEAR RESULTS 1994

- Profit before tax £40m (1993: £31m).
- Operating margins improved from 8.9% to 9.9%.
- Maintained interim dividend of 2.00p.
- Net cash £309m.
- Order book £5.9bn.

Group Profit and Loss Account

	Half year to 30 June 1994 Unaudited £m	Half year to 30 June 1993 Unaudited £m	Year to 31 December 1993 Audited £m
Turnover	1,500	1,752	3,518
Profit before taxation	40	31	76
Taxation (including overseas tax and ACT)	(9)	(10)	(18)
Attributable to minority interests	-	1	5
Profit attributable to shareholders	31	22	63
Dividends	(25)	(19)	(56)
Transferred to reserves	6	3	7
Earnings per ordinary share	2.53p	2.21p	5.95p

Group Balance Sheet & Cash Flow

Net cash balances/(borrowings)	309	(132)	473
Cash (outflow)/inflow	(164)	(216)	389*
Equity shareholders' funds	1,229	906	1,225

*includes £307m rights issue proceeds

"The profit increase has been delivered in the face of lower sales in both our aerospace and industrial power operations, and reflects our restructuring programme, which is proceeding ahead of plan.

"Conditions remain extremely challenging in all our markets, but our greater productivity coupled with the completion of the major part of the Trent engine development programme will enable us steadily to improve our performance.

"Although market conditions are unlikely to improve before 1996, we are in a good position to exploit the long term growth potential of both aerospace and industrial power from an increasingly competitive cost base."

Sir Ralph Robins, Chairman

Rolls-Royce plc, 65 Buckingham Gate, London SW1E 6AT.

The comparative figures for the year to 31st December, 1993 have been abridged from the Group's accounts for that year, which have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.
Details can be obtained from the above address.

RECRUITMENT

JOBS: The City is still waiting for the first female to chair a top 100 company

Women set for power in the big league

Sooner or later a woman is going to become the chairman of an FT-SE 100 company. It may have escaped the notice of some men out there but the race is on. The question many businesswomen are asking is who is going to be first.

Suppose it is within the next 10 years; in fact let's be more adventurous and look at the possibility before the turn of the century. Who might it be? Where will the candidates come from?

Gill Carrick, a partner at Goddard Kay Rogers & Associates, the executive search firm, sides with those who expect a woman to break through before the Millennium.

She said: "I think it could well happen within the next five years but I don't think it would necessarily cause a surge. I think we shall have one and then a shocked silence as people assimilate it before we gradually get a few more."

The latest edition of Crawford's Dictionary of City Connections noted that the number of women chief executives of listed UK companies had fallen from 12 in 1993 to nine this year. The only women chairmen of sizeable companies were Aleksandra Clayton of Alexanders Holdings, the car dealer, and Anna Vinton, joint chairman of the Reject Shop.

The big league of the FT-SE 100, however, still awaits its first woman chair. Here is a very subjective form guide gleaned from a trawl of colleagues, headhunters and a few industrialists. Could it be any of the following 11? They are listed in no particular order of preference.

● Rosalind Gilmore, chairman of the Building Societies Commission. At 56, with a civil service background, part of which was spent at the Treasury, she certainly has gravitas, and the robust way she handled the Cheltenham and Gloucester's proposal to sell out to Lloyds Bank proves she also has the metal to take on a top job when she leaves near the end of the year.

At present she is the prospective chairman of the Arrow FM consortium bidding for the London FM radio franchise but she is also well placed to take on a bigger chairmanship if one becomes available.

● Kathleen O'Donovan, at the BTR industrial conglomerate, must be a strong contender. She the first woman finance director in an FT-SE 100 company at the age of 34, and that move, in 1991, won her the European Women of Achievement Award sponsored by the European Union of Women. She recently took up a non-executive directorship at Ardagh, a Dublin-based glass maker.

● Rosemary Thorne, finance director of J Sainsbury. Apart from collecting more than 20 O-levels she has the sort of industrial street cred still valued by male-dominated boardrooms. Her business teeth were cut as a management accountant with BOC, the industrial gases company, before moving into retailing.

Her experience, particularly with Habitat-Mothercare and Harrods, gives her a strong platform for a big retailing chairmanship if and when it comes along.

● Baroness Detta O'Cathain, the former managing director of the Milk Marketing Board and current managing director of the Barbican Centre, still has a series of non-executive directorships. A few years ago she would probably have been the favourite because she occupied a very narrow field. This tended to leave her somewhat overexposed at a time when the names of women executives were difficult to recall.

● Marjorie Scardino, chief executive of The Economist Group and non-executive director of W H Smith, is a US-lawyer turned media executive. Her success in increasing the newspaper's sales in the US made her an automatic choice for The Economist job.

● Bridget Macaskill, former marketing manager at Unigate, now president and chief operating officer of Oppenheimer Management (the seventh-largest marketer of mutual funds in the US, controlling $20bn) and a non-executive director of Hillsdown Holdings.

● June de Moller. When she took over as managing director of Carlton Communications just more than a year ago she became the first woman to the chief executive's job at an FT-SE 100 company. In an expanding industry she has to be well placed to take on a chair although she will probably have to wait a while if she is hoping to succeed Michael Green as chairman. Her non-executive directorships include Anglian Water and Riverside Medical Health Trust.

● Pippa Wicks is far too young to be considered in the short term but she has great potential. Wicks is the 31-year-old finance director of Courtaulds Textiles. She is among those MBA-qualified finance directors who are prized as much for their general boardroom skills as they are for their ability to run the finance function. Recruited by Martin Taylor, the then chief executive, before he moved to Barclays Bank, she is likely to emerge as a strong contender in a few years' time.

● Helen Schneider Lenne on the main board of Deutsche Bank and a non-executive director of ICI. Schneider Lenne is one of the new breed of Euro-directors bouncing into the large British boardrooms.

● Rachael Lomax, 48, head of the economic secretariat in the Cabinet Office, was formerly head of financial institutions and markets in the Treasury and a one-time principal private secretary to Nigel Lawson, the former chancellor. For some time she has been regarded as one of the Treasury high-flyers and ranks among those civil service women who have been able to thrive, partly because of its greater concern in recent years to provide equality of opportunity.

● Wenche Marshall Foster: chairman and chief executive of Perrier (UK). If you can sell bubbly water in green bottles to the conservative British anything is possible.

Other women in high earning City jobs such as Carol Galley, director in charge of pension funds at Mercury Asset Management, and some of the leading headhunters, tend to rule themselves out because of their existing work. Because of the conflict of interest, Galley is not going to take on a non-executive role so she is probably among the non-starters.

A best of the rest list might include Kamlesh Bahl, chairman of the Equal Opportunities Commission, Frances Heaton, a director of Lazard Brothers merchant bank and former director general of the takeover panel, and Megan Richardson, director of planning at Barclays.

Elizabeth Symons, general secretary of the Association of First Division Civil Servants, is daily handling some of the most powerful mandarins in the country. Yve Newbold, company secretary at Hanson, should probably be among the dozen top contenders. The only reason she isn't is that company secretaries rarely make the top job. It is no coincidence that many of those I have listed above are finance directors or have backgrounds in finance.

Mary Baker, president of Women in Management (a professional management association for women in the UK), who could easily claim a place on the list herself with non-executive directorships at four quoted companies, believes that the Cadbury recommendations for the chairman and chief executive function to be split has increased flexibility for a potential female appointment, possibly from outside a particular company. "Women are very good at being number one which is why so many leave the corporate structure and set up their own business," she said.

Who could we list as non-starters? Lady Thatcher comes to mind. It would be rather akin to the Rolling Stones playing at the London Palladium. They could do it with ease but the orchestra would walk out.

The 11 suggestions are only for that coveted large company chairman's role. Some would be too young if you believe that a woman is going to get there in the short term. But they have been a long time waiting and may have to wait some more. If I were a betting type I might have a flutter on Gilmore.

Richard Donkin

DEPARTMENT OF ECONOMIC DEVELOPMENT
TRAINING AND EMPLOYMENT AGENCY

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The successful applicant will be qualified to the third level and have extensive senior management experience in the private or public sectors. A sound knowledge of labour market matters, with particular reference to the operation of employment and training services, is essential.

A job information sheet is available on request from Mr W P Hagan, Department of Economic Development, Massey Avenue, Belfast BT4 2JP, Telephone 0232 529339.

The closing date for applications will be 23 September 1994.

The Northern Ireland Civil Service is committed to equality of opportunity in employment and welcomes applications from all suitably qualified applicants, irrespective of religion, gender or disability. As Roman Catholics and women are currently under-represented amongst the senior general service grades, applications from the Roman Catholic section of the community and from women would be particularly welcome. All applications will be considered strictly on the basis of merit.

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If you are interested in this opportunity, please contact Elisabeth M.M. Huigen or Ludo G.M.M. Houben on the number (0031) 20-6444655, or alternatively send your curriculum vitae to the following address: Robert Walters Associates, 'Rivierstaete', Amsteldijk 166, 1079 LH Amsterdam, The Netherlands.

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ACCOUNTANCY COLUMN

Little has changed in a quarter of a century

Andrew Jack looks at the first edition of Accountancy Age and sees a continuity of issues over 25 years

Twenty five years ago, Neil Armstrong took his first steps on the moon, Concorde made its inaugural flight, parliament abolished the death penalty and the London School of Economics was closed by student protests.

Predictably enough, things were rather more static in the conservative world of British accountancy. But not everything stood still. On Friday December 5, 1969, a new weekly specialist journal came into existence which continues to thrive: Accountancy Age.

The senior editor was Robert Willott, now in charge of Willott Kingston Smith, a specialist London-based accountancy firm. The advertisement manager was Maurice Saatchi, who later decided to go it alone. The publisher was Michael Heseltine's Haymarket group.

Some 62,750 copies were distributed free to all qualified accountants, including members of the Institute of Cost and Works Accountants (now Chartered Institute of Management Accountants) and the Association of Certified and Corporate Accountants (now the Chartered Association of Certified Accountants). Others could pay two shillings for the privilege of hearing an independent voice for the profession.

Flicking through the 32 pages of the first issue, the format looks strangely familiar to readers of the Age today. There are differences, of course. In common with many newspapers at the time, there were no by-lines on the stories to indicate who had written them.

One article makes references to the tight restrictions imposed by the Institute of Chartered Accountants in England and Wales: advertising or soliciting for new business by accountancy firms is prohibited. Members could give their names and call themselves "chartered accountants" if quoted on television or in print, but they were forbidden from mentioning the name of their firms.

Salaries also reflected the era. The advertisement section tantalises with some jobs paying as much as £5,000, and remuneration for an equity partner designate in an accountancy firm of £3,000.

There is a piece about the Canola 1200 electronic desk calculator, "probably the cheapest of its kind available in this country" at £325, which is able to multiply and divide numbers. Its dimensions were 10.5 inches by 13 inches.

On the same page, the Decimal Training Company is selling plastic replicas for training purposes of Britain's new decimal coins, scheduled to be introduced in February 1971. "Experience has shown that even when checking-out cashiers have been trained it is realistic to expect that checking out will take longer," it warns.

One of the most happy and visible changes since that early era is the disappearance of an enormous number of sexist advertisements, with skimpily-clad women draped around the most mundane products on the slightest pretext.

Even the editorial judgments were affected. Page two of the first issue includes a large photograph of Gail Renshaw, Miss USA, and runner up in the Miss World contest. The justification for her appearance was that she was studying for her CPA qualification with a firm in Lexington, Georgia.

But perhaps the biggest surprise to a contemporary reader of the original edition of Accountancy Age is how little the issues of the day have changed in the last quarter of a century.

The most prominent front page story deals with "staff shortages and legislative complications" at the Inland Revenue threatening a "tax crisis". The board of the Revenue had called for a three-year standstill on all new tax legislation, while the accountancy profession was demanding in its "annual plea" simplification and removal of anomalies and "hastily conceived" proposals.

Mr N C Price, deputy chairman of the board, complains that "we do say in the most forcible terms that we do not want anything new until we have had time to digest what we were given in 1965." Meanwhile, the Confederation of British Industry was criticising tax changes "for not having been thought out sufficiently well in advance".

The Revenue also seemed concerned that youth clearly had its mind more on Boby Dylan and drugs than on matters fiscal, since it bemoaned the difficulties in retaining staff and the need to remove both the "material and psychological barriers" to the recruitment of graduates.

The tension of the "dual role" of accountants also featured prominently: an article highlighted the claimed conflict of interest when auditors also act as consultants, accountable in the first role to shareholders and in the latter role to the board.

One anonymous consultant complained to the Age that the role of the accountant as the statutory auditor should be made more "constructive", and that management information services provided by the firms should be restricted to these areas.

The story was triggered by apparent concerns from management consultants under threat because the Institute had lifted its ban on marketing for the consulting arms of the firms – a move welcomed in one of the Age's first editorials.

A second editorial supports calls from Lord Shawcross, then chairman of the City Takeover Panel, for the accountancy profession to clarify current practices. His concern was the inconsistencies in financial reporting, and the fact that the existing limited guidelines issued were not mandatory.

Ironically, the first profile of a "leading figure" was Sir Joseph Latham, who had quit AEI after its takeover by GEC at the end of a hotly contested battle. Disputes about the profit forecasts made by AEI – to which Shawcross was in part referring – became the starting point for the creation of the Accounting Standards Committee, forerunner of the Accounting Standards Board.

"I could sit down with auditors in most big companies, produce two widely different forecasts and convince the auditors of the validity of each," Sir Joseph says. He makes a plea for accountants to present "reality" not the figures as shown in "an orthodox accounting statement".

Mr Ronald Leach, yet to be knighted in 1969 but that year's president of the Institute of Chartered Accountants in England and Wales and senior partner of Peat Marwick Mitchell, was also quoted in an extensive interview with the magazine.

His most important concern? The ill-fated attempt to integrate the different professional accountancy bodies. His view was that modernisation and consolidation was essential, and the chance to merge the bodies might never be possible again.

He talked about the possibility and complexities of the incorporation of accountancy firms, partly reflecting their desire to try to raise external capital to help fund their operations and also to protect them from unlimited liability at a time of rising legal claims and escalating insurance costs.

He discussed rotation of audit firms – on which he was open-minded – and the tensions of auditors getting too close to management – which he argued did not in his experience jeopardise independence.

Leach suggested there was likely to be greater consolidation of the firms, a shift of clients towards large firms and single worldwide auditor, and predicted a move towards accountancy becoming a graduate profession.

Some of his predictions have clearly held true. Yet overall, the message of the Age seems to be that little of substance has changed at all in its first 25 years of existence. When it celebrates its 50th anniversary, much of the profession might take some secret comfort from that.

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Passed Finalists List

CIMA

The names given below are successful candidates in CIMA's Stage 4 (final) examination taken in May 1994. In the United Kingdom the pass rate was 43.22%. The pass rate for home and overseas students combined was 33.86%. The locations given are those of the exam centre where the candidates sat.

A

B ABERCROMBY, Brighton (Hove); MPH ABEYKOON, Colombo; SN ABEYSINGHE, Colombo; RMA ABEYSUNDARA, Colombo; JN ABRAHAM, Bournemouth; ST ABRAHAM, London West; SJ ACKERMAN, Peterborough; KE ADADE, Croydon; NK ADADE, London East; PJ ADAIR, Belfast; V ADAMS, Reading; KS ADCOCK, Manchester; KJ ADNAMS, Norwich; CSW AH-CHING, London Central; AHDAR BIN GASAR, Kuala Lumpur; ND AHEARNE, Athlone; SK AHMAD, Watford; AHMAD FUAD BIN ABU BAKAR, London Central; T AHMED, Cardiff; G AINSBY, London West; JO AJALA, Croydon; AD AKED, Nottingham; AA AKINAJO, London Central; BE AKPORIAYE, London Central; DS ALAWATTEGAMA, Colombo; KE ALCOCK, Liverpool; NJ ALDRIDGE, Nottingham; TM ALEXANDER, Bristol; SR ALI, Preston; M ALI HUSAIN, London Central; EJ ALIBAND, Preston; RE ALLAN, Leicester; AR ALLEN, Reading; AW ALLEN, Leeds; CJ ALLEN, Kingston Upon Thames; GS ALLEN, Barking; J ALLISON, Exeter; S ALLPORT, Preston; JE ALNER, Reading; KAR ALWIS, Colombo; SA ALWIS, Colombo; DC AMBLER, Birmingham; ARM AMEEN, London Central; Z AMEEN, Colombo; AMIR SIDDIQ ABDUL RAHIM, Dubai; A AMIRTHALINGAM, London Central; CM ANDERSON, Middlesbrough; JY ANDERSON, Bracknell; JR ANDREWS, Southampton; SJ ANDREWS, Watford; KHA ANGLISS, London Central; MR ANIFF, Durban; AA ANKRAH, London East; S ANTON JOHN LALEENDRA, Croydon; F ANTONIOU, Croydon; TJ ARMITAGE, Leeds; BG ARMSTRONG, Edinburgh; ...

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The Chartered Institute of Management Accountants

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Interested candidates are invited to call Anne SOENEN on 02/647.63.50 or alternatively to send or fax their detailed c.v., quoting reference Petercam, to: ROBERT HALF BELGIUM (a division of FONTAINE•ARCHER•VAN DE VOORDE S.A./N.V.), avenue Général de Gaulle 47, B-1050 Brussels, faxnumber 02/646.30.38.

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To find out more about the challenges involved, send an application and curriculum vitae to:

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Personnel Department
Ref 4204, Ms M Baumli
PO Box, CH-4002 Basle
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Salary by negotiation.

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Closing date 14 September 1994.

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COMMODITIES AND AGRICULTURE

LME aluminium prices surge to 3½-year highs

By Richard Mooney

Aluminium prices reached 3½-year highs at the London Metal Exchange yesterday as traders anticipated further improvements in the market's fundamental picture.

Expectations that the multilateral pact agreed earlier this year to cut output would continue to eat into stocks of the metal, already bolstered by Wednesday's news of threatened power cuts at Kaiser's Ghanaian smelter, were given a further fillip by the likelihood of a potline closure at an Australian plant (see adjacent story).

The helped the LME's three months delivery price to break through the resistance area around $1,550 a tonne to touch $1,570 before closing at $1,564, up $29.50 on the day and $51.25 on the week so far.

"The move on aluminium today was always on the cards considering recent news of production problems and improving charts," one dealer told the Reuters news agency. "Prices are now set to go higher."

As cuts under the multilateral pact have worked through LME stocks of aluminium have declined by more than 200,000 tonnes, or 7.5 per cent, from the record level reached on June 10. Producer stocks have also shown a substantial fall in recent months. And with developed economies moving out of recession demand for aluminium is generally expected to pick up quite strongly.

"We may be on for levels around $1,600 soon," the dealer told Reuters.

Strike to force cut at Australian smelter

Australia's largest aluminium smelter, Tomago, would close down one of its three potlines on Monday because of a strike, human resources manager Mr Graham Taylor said yesterday, reports Reuters from Sydney.

Closure of the 160 pots in Potline Two at the smelter near Newcastle in New South Wales would reduce annual production by 80,000 tonnes to 280,000 tonnes.

"The decision was taken purely on health and welfare considerations for our staff who are keeping the other two potlines operating during the strike," Mr Taylor said.

On August 12 some 700 workers went on strike in support of a demand for an 8 per cent pay rise. Mr Taylor said the striking workers voted at a meeting yesterday to continue the stoppage indefinitely.

Show-piece diamond mine shares the market's strain

By Kenneth Gooding, Mining Correspondent, in northern Transvaal

Turbulence in the global diamond markets is being felt even here at Venetia, De Beers' newest diamond mine, 30km from South Africa's borders with Botswana and Zimbabwe.

Only weeks before the mine came into production in July 1992 at a cost of US$400m, De Beers' Central Selling Organisation, which controls 80 per cent of world trade in rough (uncut) diamonds, imposed quotas on its producer-suppliers because of a flood of gem stones from Angola. For a time Venetia, the first mine of any sort in South Africa to gain permission for seven-day working, moved to a five-day week.

This year it has gone back to seven-day working as the quotas were eased so that the CSO is now accepting 85 per cent of the diamonds it contracted to take from producers. However, there is still turmoil in the diamond market, caused by uncertainty about Russian exports following "leaks" of stones from that country outside its contract with the CSO.

Consequently, Mr Hans Gastrow, general manager, says that this year Venetia will process 4.3m tonnes of ore, 6.5 per cent below its capacity. It is also mining an area of lower grade ore, which has fewer diamonds in each tonne.

Mr Gastrow is giving no forecasts but all this implies that output will be well below the 5.6m carats a year De Beers predicted Venetia would yield at full production.

Last year the mine, building up rapidly, more than doubled output and processed 3.6m tonnes of ore to recover 4.96m carats. About 70 per cent of Venetia's diamonds are of gem quality and analysts suggest that at $100 a carat on average the mine is generating annual sales of about $500m.

Mr Gastrow says that, apart from the imposition of the CSO quota, Venetia quote has made a remarkably smooth transition from construction to production mode. This year will be a time of consolidation.

He insists that the quota is having no impact on employment. Nevertheless, Venetia originally was to have employed 870 and it now has 764. A mine of Venetia's size in the past would have employed 2,000. The total has been kept down here partly by highly automated process plant but also by "fewer people employed just to see that other people are doing their jobs", according to Mr David Gadd-Claxton, ore extraction manager.

Venetia was the first new South African diamond mine for 25 years. It is also the country's biggest diamond mine and a major contributor of export earnings.

The mine has also revitalised De Beer's production, as it is accounting for half the group's output in South Africa and replacing production from its 100-year-old Kimberley mines, which are now fading away.

Venetia's success is strategically important to De Beers because, when its output is added to that in Botswana and Namibia, it gives the group direct control over more than 50 per cent of world rough gem diamond output. This provides a major base for the CSO to work from and gives it a powerful position from which to negotiate with other producers in the diamond cartel.

Some highly innovative ideas are being tried at Venetia

And, while Venetia is using conventional methods to mine about 500m tonnes of waste and to mine and process 100m tonnes of ore over its projected 23-year life, it is trying some highly innovative ideas about labour relations and environmental issues, at least as far as South Africa is concerned.

For example, there are no migrant workers at the mine. Employees are bussed in from nearby towns for twelve hour shifts and then return to their families. Venetia is also breaking with the De Beers' tradition that, for security reasons, no equipment leaves the mine but is buried within the top security area once it is no longer useful. Here worn out equipment will be stockpiled and sold off when the mine closes. It could be worth millions of dollars.

'Big livestock cuts needed to meet EU pollution targets'

By Deborah Hargreaves

Livestock numbers in the Netherlands, Belgium and Denmark would have to be cut dramatically if the European Union was to reach its targets for reducing nitrate concentrations in drinking water, Mr Bob Crabtree from the Macaulay Land Use Research Institute, told a conference in Aberdeen yesterday.

He cited a report from the US Department of Agriculture forecasting that livestock herds would have to be cut in the Netherlands by 65 per cent, in Belgium by 28 per cent and in Denmark by 9 per cent over eight years.

The cuts would have to occur if producers, particularly in intensive farming regions, were unable to dispose of their slurry and animal manure in an environmentally acceptable friendly way.

"Concern with water pollution from chemicals, nitrates and phosphates has increased during the last decade, particularly in the more intensively-farmed areas of Europe," Mr Crabtree said.

The EU's nitrates directive, which was published in 1991, advocated setting up nitrate vulnerable zones where restrictions would be placed on the timing and quantity of organic manure disposal. The Ministry of Agriculture has proposed 74 zones for the UK.

Mr Crabtree said the creation of the zones would place a heavy and expensive burden on many livestock farmers. "Some intensive units will need to invest in increased storage facilities for slurry and manure while seeking ways to dispose of waste over a wider area than has been necessary in the past," he said.

He also called for increased research into technical solutions to the use of farm waste, other than the traditional spreading of slurry and manure on the land.

In countries such as the Netherlands and Belgium where intensive farming was more widespread, the impact of the nitrates directive could erode some competitiveness, Mr Crabtree suggested. But he questions whether that would be politically feasible.

"There will undoubtedly be an erosion in the competitive position of designated areas and a progressive transfer of production to less vulnerable areas as fixed investments depreciate and need replacement," he said.

World timber shortage hitting British sawmills

By Deborah Hargreaves

A worldwide shortage of timber is pushing up prices for logs in the UK and leading to supply dislocations as sawmills struggle to secure their raw materials.

Many British sawmills are trying to run their plants at double shifts to cope with the increase in demand, but are having difficulties getting hold of logs.

The Forestry Commission reported a 9 per cent rise in the price of standing timber in the six months to the end of March as demand picked up when the economy began to emerge from recession. The commission also said that softwood log prices increased by 16 per cent in the year to the end of March.

"We've almost certainly seen prices higher than that in the past five months – just judging from the timber we've sold," said Mr Martin Wilkinson, forestry operations director at Tilhill Economic Forestry, a division of Booker, which manages 12 per cent of the UK's private woodland.

The UK, which ranks the eighth largest consumer of wood and wood products in the world, produces only 14 per cent of its own requirements domestically. Its import bill for logs from Canada, Scandinavia and Russia among other suppliers amounts to nearly £7bn.

But imports are dropping off after reaching a peak in 1989 as environmental concerns worldwide restrict the harvest of natural forests. The value of timber imports to the UK has declined from £10bn in 1989 to £6bn in recent years.

In addition, growing consumption of wood in many developing countries has led to fewer exports.

Mr Ian Mosley, president of the Timber Packaging and Pallet Confederation said makers of wooden pallets had seen their wood costs increase by 20 per cent over the past six months due to timber shortages.

Pallet makers are in competition with the construction industry and fencing manufacturers for tight timber supplies. "Pallets play a vital part in Britain's export drive. This timber shortage will make the export drive fatter and higher pallet prices could make exporters less competitive in foreign markets," Mr Mosley said.

As more British tree plantations reach maturity, the UK is expected to become more self-sufficient in wood production – it should be able to supply 27 per cent of its needs by 2010.

Mr Wilkinson expects timber output in Britain to reach a peak in 2025 when production should touch 20m cubic metres a year, but by then demand will have grown from a current 55m cubic metres to 75m cubic metres.

The government recently introduced a new incentives package for landowners to plant commercial trees, but Mr Wilkinson believes it is insufficient to compete land for agriculture – the value of which is buoyed by European Union subsidies.

"There is a lot of agricultural land which is eminently suited to growing conifer trees, if farmers were given incentives to plant trees on set-aside land, we could grow a lot more wood than we do now," he said.

Trees need to be planted now for harvesting in 30 years or otherwise many plantations will reach their peak and then output will drop off.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1536-8	1563-5
Previous	1505-6	1534-5
High/low		
AM Official	1510.5-1	1540-0.5
Kerb close		N/A
Open int.	274,155	
Total daily turnover	56,937	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1550-60	1575-80
Previous	1555-60	1573-5
High/low		
AM Official	1540-50	1565-70
Kerb close		N/A
Open int.	2,771	
Total daily turnover	783	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	601.5-2.5	616-7
Previous	589.5-90.5	605.5-6
High/low		
AM Official	596-7	610.5-1
Kerb close		N/A
Open int.	40,328	
Total daily turnover	12,662	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6345-55	6435-40
Previous	6165-75	6258-60
High/low		
AM Official	6260-2	6373-5
Kerb close		N/A
Open int.	54,560	
Total daily turnover	17,976	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5400-5	5470-5
Previous	5375-85	5455-60
High/low		
AM Official	5395-405	5470-80
Kerb close		N/A
Open int.	17,424	
Total daily turnover	4,481	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	983.5-4.5	1006-7
Previous	971.5-2.5	995-6
High/low		
AM Official	981-1.5	1003-3.5
Kerb close		N/A
Open int.	95,948	
Total daily turnover	19,863	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2498-9	2507-8
Previous	2499-500	2509-10
High/low		
AM Official	2490-1	2499-500
Kerb close		
Open int.	213,985	
Total daily turnover	80,984	

■ LME AM Official £/$ rate: 1.5363

LME Closing £/$ rate: N/A

Spot:1.5445 3 mths:1.5428 6 mths:1.5393 9 mths:1.5345

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Aug	114.00	+2.20	113.60	112.30	7,944	2,259
Sep	115.85	-0.85	117.20	115.45	1,044	142
Oct	114.80	-1.35	116.70	114.50	607	10
Nov	114.50	-1.45	-	-	31,790	2,697
Dec	114.20	-1.55	116.15	114.10	421	1
Jan	113.70	-1.60	115.80	114.30	272	-
Total					49,371	5,447

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	385.80-386.20	386.30-38
Opening	386.30-386.70	
Morning fix	386.00	251.220
Afternoon fix	386.00	251.090
Day's High	386.40-386.80	
Day's Low	385.60-386.00	
Previous close	386.00-386.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.31	6 months	4.51
2 months	4.32	12 months	4.90
3 months	4.36		

Silver Fix	p/troy oz.	US cts equiv.
Spot	351.55	540.15
3 months	356.00	546.30
6 months	361.20	553.30
1 year	374.30	569.70

Gold Coins	$ price	£ equiv.
Krugerrand	391-394	255-258
Maple Leaf	396.80-399.25	-
New Sovereign	90-93	59-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Sep	386.9	+0.6	-	-	812	590
Oct	388.3	+0.5	388.3	387.0	9,167	1,152
Nov	389.8	+0.5	-	-	-	-
Dec	391.3	+0.5	391.4	389.9	89,238	28,122
Feb	394.5	+0.6	394.5	393.5	13,310	37
Apr	397.8	+0.5	397.0	397.0	6,687	50
Total					158,483	30,430

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	416.4	+1.1	416.5	414.0	18,024	2,402
Jan	419.8	+1.2	420.0	417.0	5,074	367
Apr	423.7	+1.3	423.0	422.0	1,936	67
Jul	427.2	+1.3	-	-	452	26
Oct	429.7	+1.3	-	-	102	-
Total					25,591	2,862

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Sep	152.50	+0.15	152.00	151.50	984	152
Dec	154.50	+0.40	154.50	153.75	5,367	779
Mar	155.00	+0.65	155.00	154.25	651	57
Total					6,982	988

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Sep	542.8	-1.5	544.0	540.0	3,381	2,005
Oct	545.0	-1.6	-	-	5	2
Nov	547.0	-1.7	-	-	-	-
Dec	549.5	-1.7	551.0	547.0	84,007	23,420
Jan	551.9	-1.7	551.0	551.0	58	19
Mar	557.5	-1.7	559.0	555.0	8,487	1,283
Total					110,644	26,781

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	17.72	+0.16	18.00	17.56	94,764	56,340
Nov	17.74	+0.17	17.78	17.58	58,384	23,724
Dec	17.73	+0.15	17.78	17.60	47,969	12,432
Jan	17.77	+0.18	17.78	17.66	32,497	7,972
Feb	17.72	+0.14	17.72	17.68	19,917	3,314
Mar	17.74	+0.15	17.74	17.74	14,886	975
Total					397,628	107,853

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	16.49	+0.13	16.58	16.40	61,625	23,107
Nov	16.54	+0.12	16.65	16.49	31,894	9,519
Dec	16.55	-	16.66	16.54	19,441	2,666
Jan	16.52	+0.06	16.60	16.50	8,803	1,084
Feb	16.47	+0.08	16.54	16.47	4,401	487
Mar	16.45	+0.05	16.50	16.44	4,911	206
Total					138,298	37,003

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	50.05	+0.81	50.20	49.25	42,816	22,420
Nov	50.86	+0.78	50.95	50.05	20,266	5,283
Dec	51.85	+0.86	51.95	51.30	35,997	5,754
Jan	52.55	+0.86	52.60	52.25	20,654	4,450
Feb	52.60	+0.26	-	-	9,780	727
Mar	51.30	+0.21	-	-	8,763	277
Total					182,488	53,893

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	152.50	+0.25	153.00	151.25	24,929	3,078
Oct	155.50	-	158.00	154.50	24,622	3,253
Nov	157.50	-0.25	158.00	157.00	12,376	432
Dec	159.25	-0.25	160.00	158.50	18,779	1,009
Jan	160.50	-0.25	161.25	160.25	12,050	947
Feb	160.50	-0.75	161.50	160.50	4,260	285
Total					105,892	9,807

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	1.820	+0.034	1.825	1.571	29,478	6,311
Nov	1.845	+0.020	1.855	1.815	16,487	2,351
Dec	2.065	-	2.080	2.060	23,517	2,395
Jan	2.100	+0.005	2.105	2.090	14,644	1,108
Feb	2.035	+0.010	2.045	2.030	11,041	662
Mar	1.995	+0.013	2.005	1.995	8,750	239
Total					146,080	15,225

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	49.55	+0.33	49.75	49.20	27,204	14,078
Nov	48.85	+0.15	49.10	48.70	15,220	2,905
Dec	55.10	+0.05	55.40	55.00	8,852	574
Jan	54.20	+0.10	54.15	54.15	4,233	74
Feb	54.00	+0.60	54.00	54.00	3,076	444
Mar	55.00	-	55.00	53.40	-	-
Total					62,832	30,646

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	104.60	-	104.40	104.00	257	22
Nov	105.65	+0.35	105.65	104.90	2,486	124
Jan	107.65	+0.30	107.60	107.35	1,765	66
Mar	109.65	+0.40	109.00	109.00	1,104	1
May	111.60	+0.30	111.50	111.10	1,102	10
Jul	113.75	+0.40	-	-	177	-
Total					6,891	223

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	386/0	+2/4	389/4	381/4	2,716	3,182
Dec	390/6	+1/4	393/4	378/4	48,285	12,919
Mar	387/2	+0/2	390/4	385/0	15,419	2,103
May	380/0	+2/4	382/0	377/0	1,564	159
Jul	356/6	+3/4	357/4	353/0	2,482	732
Dec	366/0	+3/4	-	-	30	15
Total					70,497	19,111

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	221/6	+1/0	222/0	219/6	13,829	9,593
Dec	223/2	+0/4	223/4	220/6	128,942	13,080
Mar	232/4	+0/2	233/0	230/2	28,695	1,477
May	238/0	+0/6	239/2	237/0	11,657	320
Jul	243/2	+0/4	243/4	241/0	11,446	557
Sep	247/0	+1/2	247/0	245/0	944	61
Total					261,103	25,322

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	103.30	+0.15	103.30	103.00	91	23
Nov	104.30	+0.05	104.30	104.00	473	51
Jan	106.10	+0.30	106.00	105.60	315	30
Mar	108.00	-	-	-	66	-
May	110.00	-	-	-	21	-
Total					966	104

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	580/6	-0/2	582/4	578/0	6,598	3,446
Nov	574/0	+0/2	574/6	570/2	77,702	18,419
Jan	582/0	-	582/2	578/2	14,078	2,101
Mar	591/0	-0/2	591/0	587/0	6,115	934
May	596/4	-1/0	597/4	593/4	4,049	403
Jul	601/6	-0/6	602/4	598/2	7,626	636
Total					119,898	26,868

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	25.31	+0.33	25.33	24.97	10,453	3,315
Oct	25.15	+0.22	25.18	24.84	16,432	4,563
Dec	24.90	+0.18	24.95	24.63	36,821	6,822
Jan	24.81	+0.14	24.88	24.56	5,252	231
Mar	24.89	+0.09	24.75	24.45	6,869	542
May	24.58	+0.13	24.58	24.35	4,021	271
Total					82,724	15,821

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	173.2	-	173.5	172.5	11,597	3,448
Oct	171.5	-0.2	171.9	171.0	13,167	1,903
Dec	172.4	-0.2	172.7	171.8	36,732	4,791
Jan	173.3	-0.4	173.7	173.0	8,852	779
Mar	175.8	-0.5	176.4	175.5	7,460	448
May	177.2	-0.4	177.5	176.9	4,323	318
Total					83,282	11,738

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	150.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	213.8	-11.2	222.0	213.5	1,267	275
May	240.0	-	-	-	-	-
Jan	107.5	-	-	-	-	-
Total					1,267	275

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	1463	+45	1446	1428	829	55
Oct	1461	+36	1461	1435	871	61
Nov	1465	-	1465	1450	-	25
Jan	1458	+18	1465	1450	522	22
Apr	1470	+10	1470	1460	169	25
Jul	1363	-12	-	-	60	-
Total						

	Close	Prev
BFI	1435	1436

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	979	+3	982	975	2,889	241
Dec	1016	+2	1022	1007	30,839	1,509
Mar	1044	+5	1045	1038	31,881	229
May	1056	+6	1058	1050	11,547	30
Jul	1066	+5	-	-	5,018	-
Sep	1081	+10	1080	1077	8,971	16
Total					102,204	2,025

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	1325	+20	1330	1324	218	65
Dec	1372	+15	1377	1355	41,985	5,980
Mar	1415	+15	1417	1396	12,596	1,182
May	1440	+15	1445	1430	3,404	181
Jul	1462	+15	-	-	2,478	7
Sep	1482	+15	-	-	1,305	-
Total					78,004	7,495

■ COCOA (ICCO) (SDR's/tonne)

Aug. 31	Price	Prev. day
Daily	1028.74	1035.73

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	3885	+20	3900	3800	4,239	277
Nov	3805	+32	3810	3710	12,690	2,750
Jan	3748	+35	3750	3680	11,464	1,203
Mar	3688	+24	3690	3639	5,414	181
May	3658	+10	3630	3615	1,479	5
Jul	3655	-10	3625	3625	53	3
Total					36,339	4,419

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	206.75	+1.00	208.00	204.25	385	184
Dec	212.10	+1.20	214.75	209.00	22,794	6,906
Mar	215.50	+1.70	217.50	213.25	6,566	695
May	216.40	+1.50	216.50	214.50	2,984	167
Jul	217.30	+1.80	-	-	708	61
Sep	218.20	+1.95	-	-	407	2
Total					34,267	8,696

■ COFFEE (ICO) (US cents/pound)

Aug. 31	Price	Prev. day
Comp. daily	193.98	194.47
15 day average	181.04	179.40

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	12.34	-0.14	-	-	1,801	-
Jan	11.82	-	-	-	-	-
Mar	12.24	-0.14	-	-	90	-
Total					1,891	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	322.10	-1.10	323.90	322.00	8,876	1,067
Dec	320.30	-0.60	321.60	320.00	1,930	198
Mar	319.80	-1.00	321.50	319.70	5,926	124
May	319.80	-0.90	321.50	321.50	536	24
Aug	321.50	-0.20	321.90	321.50	405	47
Oct	306.80	+0.80	-	-	208	-
Total					17,881	1,460

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	12.05	-0.09	12.13	12.03	52,095	7,691
Mar	12.10	-0.08	12.16	12.09	63,407	8,847
May	12.06	-0.09	12.10	12.05	10,342	674
Jul	11.97	-0.10	12.03	11.97	4,039	431
Oct	11.82	-0.10	11.82	11.81	1,650	101
Mar	11.30	-0.10	11.30	11.30	494	10
Total					132,838	17,854

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	69.75	+0.90	69.75	69.05	4,143	520
Dec	69.73	+0.07	69.80	69.07	28,697	4,667
Mar	70.05	+0.15	70.30	69.40	8,321	435
May	71.05	+0.05	71.10	70.50	4,587	249
Jul	71.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	69.60	-0.05	69.55	69.65	414	6
Total					[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	91.80	-0.25	92.10	91.60	1,481	1,791
Nov	95.30	[illegible]	95.15	95.60	8,764	1,421
Jan	98.60	+0.05	98.85	98.30	4,722	559
Mar	100.50	+0.25	101.50	100.60	2,502	38
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	108.00	-	108.50	108.50	[illegible]	10
Total					20,112	2,832

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

Wool

Prices at sales this week continued the rise which has characterised the 1994/95 selling season, with auctions resumed in all primary markets during the past five weeks. There has also been good demand for Australian stockpile wool, with disposals far exceeding the present monthly fixed schedule. Buying interest stretches well forward, with inroads now being made into the months from January onwards when stockpile sales will be twice the present rate. The rising wool price trend is also bringing out steady business in wool textile semi-manufactures, though there is considerable price resistance and raw wool markets are showing more buoyancy than applies further down the manufacturing line. The Australian Eastern states market indicator ended the week at 739c/kg, compared with 728c/kg a week before.

INDICES

■ REUTERS (Base: 18/9/31=100)

Sep 1	Aug 31	month ago	year ago
2095.4	2101.7	2098.4	1628.1

■ CRB Futures (Base: 1967=100)

Aug 31	Aug 30	month ago	year ago
232.11	231.55	233.16	215.07

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	71.675	+0.825	72.100	70.825	36,039	5,446
Dec	69.625	+0.550	69.975	69.025	17,041	2,761
Feb	68.400	+0.550	68.600	67.850	11,609	933
Apr	70.200	+0.325	70.400	69.800	7,791	727
Jun	67.225	+0.175	67.500	66.975	1,888	180
Aug	66.925	+0.125	67.175	66.750	835	215
Total					75,285	10,269

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	38.800	+0.225	38.850	38.300	11,901	3,561
Dec	38.725	+0.275	38.800	38.325	9,730	1,722
Feb	38.900	+0.325	38.950	38.500	3,001	952
Apr	39.100	+0.125	39.300	38.950	1,867	385
Jun	44.200	+0.050	44.400	44.050	684	138
Aug	43.175	+0.025	43.350	0	54	10
Total					27,342	6,771

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	43.225	+0.300	43.450	42.700	7,293	2,988
Mar	43.175	+0.275	43.375	42.650	450	104
May	43.900	+0.300	44.000	43.150	78	17
Jul	44.800	-	44.800	44.200	138	13
Aug	42.900	-	-	-	31	7
Total					7,988	3,245

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Oct	Jan	Oct	Jan
1500	66	110	17	39
1525	50	95	25	48
1550	37	81	37	59
■ COPPER (Grade A) LME	Oct	Jan	Oct	Jan
2400	127	153	15	54
2450	90	123	29	74
2500	61	98	49	97
■ COFFEE LCE	Nov	Jan	Nov	Jan
3600	349	462	144	304
3650	319	427	164	329
3700	292	420	187	355
■ COCOA LCE	Dec	Mar	Dec	Mar
1000	69	108	53	53
1050	48	83	82	82
1100	32	64	116	116
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1600	71	-	19	-
1650	39	63	39	-
1700	20	50	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Oct)

		+or-
Dubai	$15.40-5.41t	+0.185
Brent Blend (dated)	$16.00-6.02	+0.015
Brent Blend (Oct)	$16.43-6.45	-0.055
W.T.I. (1pm est)	$17.65-7.67	-0.100

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$189-190	
Gas Oil	$153-155	+0.5
Heavy Fuel Oil	$74-76	-2.0
Naphtha	$159-161	
Jet fuel	$169-170	+2.0

Petroleum Argus estimates

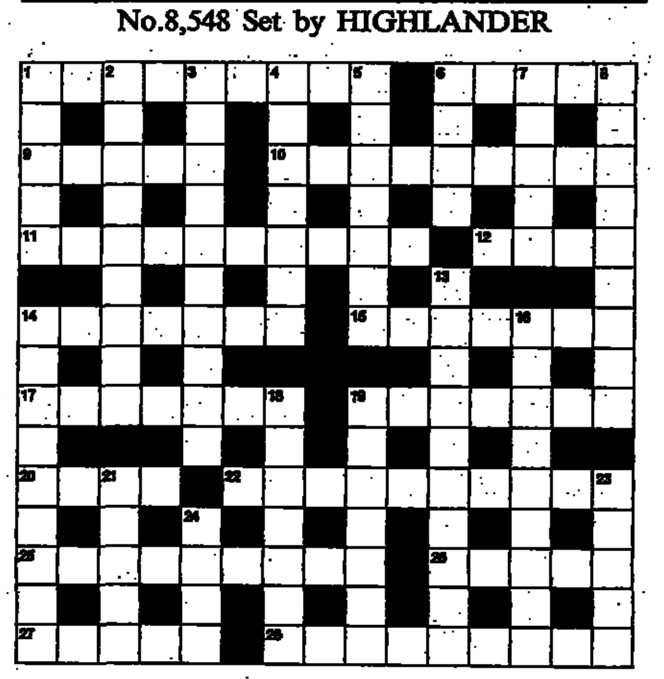
■ OTHER

Gold (per troy oz)♦	$386.00	-0.25
Silver (per troy oz)♦	543.0c	+1.50
Platinum (per troy oz.)	$413.00	-0.15
Palladium (per troy oz.)	$152.50	+0.60
Copper (US prod.)	121.0c	+3.0
Lead (US prod.)	37.75c	
Tin (Kuala Lumpur)	13.09m	+0.31
Tin (New York)	252.5c	+1.0
Cattle (live weight)†	115.69p	-0.75*
Sheep (live weight)†♦	97.22p	-2.37*
Pigs (live weight)	75.77p	-3.16*
Lon. day sugar (raw)	$307.00	+0.60
Lon. day sugar (wte)	$345.50	
Tate & Lyle export	£312.00	
Barley (Eng. feed)	£107.0w	
Maize (US No3 Yellow)	£140.0	
Wheat (US Dark North)	£150.0	
Rubber (Oct)♥	69.00p	-1.50
Rubber (Nov)♥	68.00p	-1.50
Rubber KL RSS No1 Aug	318.00m	
Coconut Oil (Phil)§	$605.0z	
Palm Oil (Malay)§	$540.0w	
Copra (Phil)§	$415.0	
Soyabeans (US)	£165.0u	
Cotton Outlook 'A' index	75.65c	-0.70
Wooltops (64s Super)	464p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Nov/Dec. † Oct. ‡ Sep/Oct. w Sep. ♦ London Physical. § CIF Rotterdam. ¶ Bullion market close. * Change on week. ♦ Prices are for previous day.

CROSSWORD

No.8,548 Set by HIGHLANDER



ACROSS

1 Was allowed to go round and create barren area (9)
6 Stalks on the way, untreated (5)
9 In some versions her niece used to select numbers (5)
10 Temporarily stopped hanging (9)
11 Let off and allowed to go (10)
12 Before a National Trust enquiry starts (4)
14 Topped, like Charles I? (7)
15 Came into contact with a little cuckoo (7)
17 Your mischievous dwarf is number one (7)
19 Little woman clutches container for eggs? Pardon! (7)
20 Fire and pillage (4)
22 Fractured feathers are not working (6,4)
25 Delay fixed allowance for worship (9)
26 Dislike extracting lead from metallic element (5)
27 Negotiate a special surprise (5)
28 Were tense, scattering sugar (9)

DOWN

1 Use oriental in natural environment (5)
2 Beach area with high quality sedimentary rock (9)
3 First nine have ended badly balanced (4-6)
4 Certain to be self-confident (7)
5 Fall of the French conveyed in speech (7)
6 Soaks up goulash (4)
7 Thinking man's sculptor has bar at home (5)
8 Married? Yes and drunk for 24 hours (9)
13 Sprinting not allowed – it's coming to an end (7,3)
14 Bad-tempered worker swallows one bread roll (9)
16 Confusing to an Irish student of the past (9)
18 In favour of games period many years ago (7)
19 Suspiciously question African party over key (7)
21 Picked cold socks (5)
23 Rugby person raised in Belgium (5)
24 It attracts fish but sailor goes round it (4)

Solution 8,547

COMPOSER BRAVED
H I D P E E U
OUTRIVAL SCARED
P R S R S E D G
IBERT CINEPHILE
N W H U T O
KODALY GRIFFIN
O R L O O S
FETTLER ARNOLD
F A A D I I
AUDITORIA ALAUN
N A H E M U T H
DANTON LAMBLIKE
O T M N E O R
NEEDED ITERANCE

JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Wide-ranging setback follows US price data

By Terry Byland, UK Stock Market Editor

Discomforting economic developments in Europe and the US upset the London stock market yesterday afternoon, prompting a sharp fall cross the range of equities. A large sell programme was reported and the market closed in a negative mood ahead of publication today of the latest US unemployment and payroll statistics.

The FT-SE 100 Share Index closed 34.8 points off at 3,216.5. Although this was a shade above the day's low, traders believed that the 3,200 mark could be challenged today, especially if Wall Street, which was 15 Dow points off as London went home last night, reacts badly to today's US payroll data.

Markets were upset by the announcement that the pricing index of the US National Association of Purchasing Managers (NAPM) had risen sharply in August to its highest level for six years. This latest hint of inflationary pressures from the US unsettled European markets already troubled by the Bundesbank's decision to leave key rates unchanged after a sharp rise in German industrial production raised concern that the downward trend in European interest rates might now be over. Analysts are now nervous of a return of "stagflation," when prices continue to rise while the economic pace slows down.

However, traders were not convinced that yesterday's shakeout in London represented significant selling pressure from the institutions. The FT-SE Mid 250 Index, taking in a range of non-Footsie stocks, also fell, closing 22.3 down at 3,794.3.

The big selling programme, not finally disclosed until the market close, appeared to involve a wide range of front line stocks. But non-Footsie business made up around 62 per cent of the day's total of 677.2m shares traded through the Seaq net and several second-line stocks featured in the lists of active market stocks. Wednesday's session recorded retail business worth £1.53bn, well up to the best averages of the past twelve months.

Equity strategists said that confidence remains relatively high in the UK stock market, and that this week's downward drift represents little more than a pause in a market now thoroughly underpinned by economic recovery and by strongly improving corporate profits and dividends.

They believe that these trends will enable UK equities to resist the growing concern that interest rates may be forced higher sooner rather than later; some believe that the UK authorities may elect for a pre-emptive strike on base rates, following the lead shown by the US Federal Reserve.

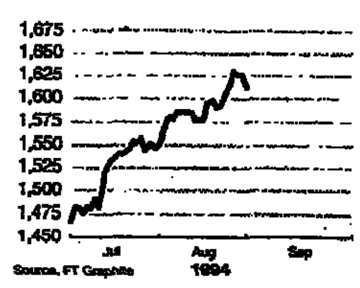
For the near term, however, company results have provided a less positive guide. The interim statement from Rolls-Royce, the aero-engine group, failed to please the market yesterday, as did the statement from Ladbroke, the leisure and casinos group.

The market was hard hit by the weakness in Wall Street influenced stocks which followed the opening setback in the Dow. Once again, traders were happy to take profits in the big name stocks which led the market in the strong upturn seen towards the end of last week.

With the latest bout of bid excitement, prompted by SmithKline's purchase of Sterling Health, receding somewhat, there were sharp falls in the drug leaders. Defence stocks, also alerted this week by the $10bn merger of Lockheed Group and Martin Marietta, had a quieter session yesterday.

Oil stocks, also, began to slide away towards the close and BAT Industries finally provided almost a lone firm spot among the blue chip internationals. Losses among the consumer and retail issues were fairly modest, although Kingfisher again gave ground as investors pondered the implications of the rise in French bank rates for Darty, the group's French subsidiary.

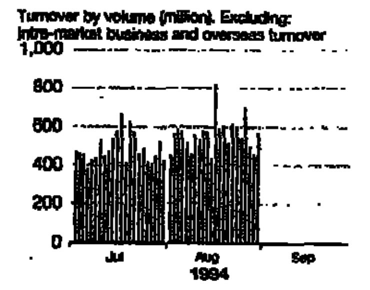
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ **Key indicators**

Indices and ratios

FT-SE 100	3216.5	-34.8	FT Ordinary Index	2509.4	-25.6
FT-SE Mid 250	3794.3	-22.3	FT-SE-A Non Fins p/e	19.95	(20.16)
FT-SE-A 350	1625.0	-15.7	FT-SE 100 Fut Sep	3221.0	-42.0
FT-SE-A All-Share	1612.27	-14.37	10 yr Gilt yield	8.55	(8.60)
FT-SE-A All-Share yield	3.69	(3.67)	Long gilt/equity yld ratio:	2.33	(2.36)

Best performing sectors		Worst performing sectors	
1 FT-SE SmallCap ex IT	+0.2	1 Household Goods	-2.5
2 Property	+0.2	2 Electricity	-2.2
3 Engineering, Vehicles	+0.1	3 Gas Distribution	-1.9
4 Tobacco	+0.1	4 Pharmaceuticals	-1.8
5 Other Financial	+0.1	5 Oil Exploration & Prod	-1.8

Broker caution hits Rolls

Aero-engines group Rolls-Royce came under pressure in heavy trading of 15m shares as broker's trimmed 1995 forecasts after the group reported interim figures at the bottom end of expectations.

The shares fell 10 in early trading after the company revealed profits of £40m, against a market range of £40m to £50m. However, with analysts on the sector away at other results meetings, bargain hunters quickly moved into the stock leaving it to trade in positive territory for a short period mid-session.

The shares eventually closed 8 down at 180p, as analysts digested what many considered a downbeat presentation from the company chairman. Researchers were particularly concerned by comments from the company that engine deliveries for 1995 were at this stage likely to be lower than expected.

Many analysts stuck to their 1994 forecasts of around £100m but reduced the following year's figure to reflect the company's comments. NatWest Securities reduced its figure by £9m to 136m, while Credit Lyonnais downgraded its forecast by £15m to 135m.

The shares have outperformed the market for most of the year and general profit-taking, along with sell recommendations from several brokers earlier this weak, contributed to the malaise.

SWEB active

The electricity sector fell sharply under the weight of a flurry of profit-taking but there were suggestions late in the day that one company, South Western Electricity (SWEB), had instructed its broker, BZW, to move into the market to buy in stock. Turnover of 2.2m in SWEB was the third highest on record and indicated that it could have bought just short of 1 per cent of its own shares. SWEB closed only a penny off at 822p.

The rest of the Recs were hit by profit-taking. Some dealers felt, however, that the steep declines yesterday could have been an attempt by market-makers at the big integrated securities houses to flush out stock ahead of attempted share buy backs.

Buy backs have been on the agenda for many months and analysts expect many of the companies to to buy in their own stock before the companies enter their closed seasons starting from the middle of the month. It was pointed out that Northern has only six trading days to buy in stock, while Midland has seven and Seeboard, which moved last week to buy its own shares, has nine days.

Yorkshire Electricity held up well as the market responded to talk that the shares had responded to the expiry of an OTC, or specially constructed option in the stock. At the close, Yorkshire were only 4 off at 790p. The biggest fallers in the sector included East Midlands, 18 off at 764p, Eastern 29 lower at 813p and Midlands which fell 24 to 814p.

South West Water edged up 3 to 578p after stories that the company will not seek a reference to the MMC.

BAT wanted

Yield considerations and a surge of optimism over US tobacco sales gave an early boost to BAT Industries, the international tobacco and insurance conglomerate.

Initially, buyers responded to a move from US rival Philip Morris which increased its quarterly dividend by more than expected and announced a share buy back. The raised dividend follows recent reports of increased cigarette sales in the US and adds weight to expectations that BAT will report improved figures for tobacco sales in November.

Several UK securities reiterated their positive stance on the stock at their morning meetings. S.G. Warburg, among them, also pointed out that the yield on the Eagle Star parent had risen to 6.2 per cent against 5.8 per cent for rival composites. The house believes they should trade at parity and says the imbalance implies a potential 5 per cent upside in BAT's share price.

BAT were up 8 at best and held out against the broader market's sharp fall in late trading to close a penny higher at 443p with 5.6m traded. Rothmans also benefited from the improved tobacco sentiment to close 4 higher at 394p.

Optimism over cyclical recovery potential next year for Hanson, the internationally traded conglomerate, was offset by some heavy selling in the US.

A number of brokers have factored in earnings per share growth of around 20 per cent for next year. The stock has held up against the market since going ex-dividend on Tuesday and yesterday the shares resisted the early fall in the market to rise 2p. However, Salomon Brothers the US investment bank dealt 1.2m American Depositary Receipts – equivalent to 6m shares – at the dollar equivalent of 256p and the shares came off the top to close marginally easier at 255p.

Household products group Reckitt & Colman slid 25 to 627p as the company announced that first-half profits had fallen to £123.3m from £143.6m previously. The company took an exceptional charge of £56m to cover reorganisation costs in Europe and gave a disappointing trading statement.

A two-way programme trade featuring a few sizeable individual deals affected Reuters and Zeneca. The former slipped a penny to 510p as 600,000 shares were taken out of the market while Zeneca fell 11 to 828p as the shares felt the pressure of an additional 700,000 in the market.

Hoare Govett was behind the surge in activity in TSB, with the broker recommending the shares to its clients on the basis that the bank's profit margins are being maintained and that the bank retains its high dividend paying capacity. Hoare's banks team increased its profits forecasts for the bank, lifting its current year expectation from £480m to £500m and that for next year from £590m to £610m.

The broker also highlighted the 11 per cent underperformance of TSB shares this year. TSB stock closed 2 firmer at 224p, after 226p, with turnover reaching 9.3m shares, the highest single day's turnover since January this year.

Abbey National jumped 8½ more to 414½p as the market absorbed news that the company had increased rates on its fixed rate mortgages and that the shares had broken out of their recent range.

The recent institutional buyer of Royal Bank of Scotland reappeared yesterday, via Credit Lyonnais Laing, and drove RBOS shares up 4½ more to 430½p.

Strong US buying was again noted in food and drinks group Cadbury-Schweppes. The shares closed a penny ahead at 491p, on volume of 2.4m.

MARKET REPORTERS:
Peter John,
Steve Thompson,
Joel Kibazo.

■ Other statistics, Page 21

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (56).
BREWERIES (2) Holt (J), Marston Thompson, BUILDING & CNSTRN (1) Kajima, BLDG MATLS & MCHTS (1) Grafton, DISTRIBUTORS (3) Brammer, Finelist, Parico, DIVERSIFIED INDLS (3) Mitsubishi, Porter Chadburn, TT, [illegible] PROPERTY (1) Argent, SPIRITS, WINES & CIDERS (2) Macdonald Martin A, Matthew Clark, SUPPORT SERVS (2) Page (M), Reed Executive, TRANSPORT (2) AMERICANS (1) SOUTH AFRICANS (1).
NEW LOWS (32).
BUILDING & CNSTRN (1) Tilbury Douglas, DISTRIBUTORS (4) Azlan, Blatchley, Bogod A, Cowie, ENG, VEHICLES (1) Motor World, EXTRACTIVE INDS (3) Anglo Pacific Res, Bracken, Monarch Res., HEALTH CARE (1) Intercare, HOUSEHOLD GOODS (2) Joyes, Wyefield, INSURANCE (1) Topdanmark, INVESTMENT TRUSTS (6) MEDIA (2) OTHER FINANCIAL (2) PROPERTY (2) OEM, Specialty Shops, RETAILERS, GENERAL (1) Pentos, SUPPORT SERVS (1) TEXTILES & APPAREL (2) Atkins, Foster (J), TRANSPORT (2) AMERICANS (1).

EQUITY FUTURES AND OPTIONS TRADING

Concern over inflation continued to dominate the derivatives sector leading to a sharp decline in stock index futures, *writes Joel Kibazo.*

Having opened at 3,262, early buying attributed to SG Warburg pushed the September contract on the FT-SE 100 to a high of 3,265 within the first hour of trading.

But with little follow-through buying, the contract drifted lower on continued worries on inflation. The decision by the Bundesbank to leave interest rates unchanged also caused some concern.

In the afternoon it was the US purchasing managers' figures that once again raised fears on inflation bringing a further retreat in the September contract which fell to the day's low of 3,244, to test the 3,240 support level.

Bargain-hunting in the last hour brought some recovery in the September contract. It closed at 3,221, down 42 on its previous close, and at parity with its fair value premium to cash of about 5 points. Volume was 15,056 lots.

Rolls-Royce, which reported interim figures at the bottom of expectations was the outstanding feature in the traded options sector as it traded 5,420 contracts. It was followed by Vodafone Group, among the stock options.

Total volume in the sector was 34,233 lots with the FT-SE 100 option trading 15,014 lots and 4,375 in the Euro FT-SE option.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3262.0	3221.0	-42.0	3265.0	3214.0	15056	53860
Dec	3274.0	3235.5	-42.0	3276.5	3234.0	1608	9640
Mar	-	3258.0	-41.0	-	-	0	0

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3805.0	3796.0	-9.0	3805.0	3795.0	210	4271
Dec	3826.0	3817.0	-9.0	3826.0	3817.0	160	320

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	3798.0	-	-	-	-	636

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3216) £10 per full index point

	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P	3300 C	3300 P	3350 C	3350 P	3400 C	3400 P
Sep	174½	2½	128	5½	86	13	49½	28	23½	52½	8	92	2	142	1	192
Oct	188½	19	148½	29	110½	42½	81½	63½	65½	88	35½	118½	22	156	12½	198½
Nov	206½	31	170½	44½	135	59½	106	80	79½	104	58½	133	40½	167	28	204½
Dec	226	47	192	59½	158½	76	129	96½	109	118½	78	146½	57	177½	43½	214½
Jun†			282	114½			222½	153½			172½	203½			128	260½

Calls 8,905 Puts 8,057

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P	3225 C	3225 P	3275 C	3275 P	3325 C	3325 P	3375 C	3375 P
Sep	198	2½	149½	3½	104½	9½	65	19	33	37	14½	68½	3½	107½	1½	154½
Oct	208	15½	168½	23½	128½	35½	96	52	67½	73½	46	101½	28	134½	17	172
Nov	227½	25½			151	49½			89½	86½			47	143		
Dec	246½	38½			173	64			113	102½			67½	155½		
Mar†	280½	64			222½	93½			166	134			119½	184½		

Calls 1,662 Puts 2,624 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3500	3550	3600	3650	3700	3750		3800		3850	
Sep						87½	31	58½	52	36½	80

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

FT - SE Actuaries Share Indices — The UK Series

	Sep 1	Day's chge%	Aug 31	Aug 30	Aug 26	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3216.5	-1.1	3251.3	3249.8	3265.1	3072.6	3.90	6.79	17.39	88.65	1211.65
FT-SE Mid 250	3794.3	-0.6	3816.6	3813.8	3807.0	3489.8	3.25	5.48	21.91	86.15	1407.81
FT-SE Mid 250 ex Inv Trusts	3801.2	-0.5	3820.8	3817.8	3810.7	3505.9	3.38	5.93	20.42	88.79	1406.76
FT-SE-A 350	1625.0	-1.0	1640.7	1639.7	1645.1	1539.0	3.75	6.48	18.27	42.98	1252.09
FT-SE SmallCap	[illegible]										
FT-SE SmallCap ex Inv Trusts	[illegible]										
FT-SE-A ALL-SHARE	1612.27	[illegible]									

■ FT-SE Actuaries All-Share — sector indices (10 Mineral Extraction to 99 FT-SE-A All-Share), Hourly movements, FT-SE Actuaries 350 Industry baskets: [illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

FT GOLD MINES INDEX

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	61	2	7
Other Fixed Interest	3	0	12
Mineral Extraction	39	84	76
General Manufacturers	104	145	394
Consumer Goods	44	43	100
Services	65	98	338
Utilities	8	31	6
Financials	71	105	193
Investment Trusts	17	105	258
Others	35	50	28
Totals	447	755	1411

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	August 22	Expiry	November 24
Last Dealings	September 5	Settlement	December 5

Calls: [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

LONDON SHARE SERVICE

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or –	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£30	+½	£30	£13½	1,956	2.5	22.0
Barlow	Z	944½	—	£9½	£3½	914.1	0.7	–
Gold Flds Prop R		128xd	—	128	75	13.1	7.4	ϕ
NK Props.	s	85	—	95	85	3.42	10.5	34.9
SASOL		470	—	470	280	2,671	3.0	–
SA Brews		£12½	—	£15⅞	£10	3,466	2.2	20.4
Tiger Oats	†	800	—	835	538	892.2	2.6	12.7
Tongaat-Hulett	h	579xd	—	*616½	358¼	527.7	2.2	18.2

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- $ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on IIMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (▼) - 0001 to 1100 hours; (#) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

OTHER UK UNIT TRUSTS

INSURANCES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

DBS Financial Management Ltd

Independence Hse, Holly Bk Rd, Huddersfield 0484-422224

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

No change from Buba

Traders were yesterday left twiddling their thumbs after the Bundesbank council left all its leading interest rates unchanged, *writes Philip Gawith*.

The Bank's decision, leaving the discount and lombard rates unchanged at 4½ per cent and 6 per cent respectively, and the repo rate fixed at 4.85 per cent for a further two weeks, was widely expected.

In the US the dollar weakened after the prices component of the August purchasing manager's index rose to 74.5, the highest level in six years. This prompted weakness in the bond market, and a fall in the Dow Jones industrial average below 3,900, which hurt the dollar.

The dollar finished in London at DM1.577 from DM1.5783. Against the yen it closed at Y99.665 from Y100.175.

The focus has now shifted to the release today of US payrolls data. The prospect of a long weekend in the US also curbed the market's appetite for taking large positions and this had a dampening effect on volumes.

In Europe the D-Mark was little changed after the Bundesbank's decision to leave rates unchanged. Sterling had a very quiet day, with the trade weighted index unchanged at 79.1.

■ The response of US markets and the dollar to the purchasing managers' index was a reminder of the bearish psychology which continues to plague the dollar. Some analysts had recently predicted that softer than expected data, which was good for the bond market, might be the catalyst for a dollar revival. Yesterday's movements suggest that reasoning to be premature.

Analysts said the softness of other parts of the report – such as falls in new orders, production and the employment index – should have offset the prices index and prevented the dollar going lower.

Earlier the dollar had received some encouragement from Mr Robert Mcteer, president of the Dallas Federal Reserve bank, who said the long term outlook for the dollar was pretty good. He predicted it would be stronger in 6-12 months time.

Analysts said the market's response had been constrained by the release of the monthly employment report, and the start of a long weekend. Some traders are expected to start squaring their positions with Labour day and Rosh Hashanah holidays next week.

■ The Bank of France left its intervention rate unchanged at 5 per cent, despite the decision earlier in the week by leading French commercial banks to raise interest rates by 25 basis points.

Although the franc was fairly firm, analysts warned that trouble may lie ahead. Economists at Nikko Europe say that unemployment, which fell to 3.07m in July, will be the main issue in the May 1995 presidential election.

They argue that the economy needs further stimulation, but the commitment to reduce the budget deficit removes room for fiscal manoeuvre, while the Bank of France's commitment to a stable Franc/D-Mark rate means French rates are set in relation to German rates.

The Nikko economists predict that there will probably only be one further cut in German rates, in late September/early October. "The French economy needs more than just one interest rate cut (but) it is not likely to get it. This is likely to lead to an increased political risk premium in both the franc and domestic bond yields."

Elsewhere in Europe the lira, having recovered to L1,000, again fell victim to profit-taking. The catalyst was a renewed bout of political squabbling, prompted by comments from Mr Umberto Bossi, the Northern League leader.

Mr Bossi alleged that the prime minister, Mr Silvio Berlusconi, had asked President Scalfaro's permission to call a fresh general election in the hope that the League would lose much of its vote.

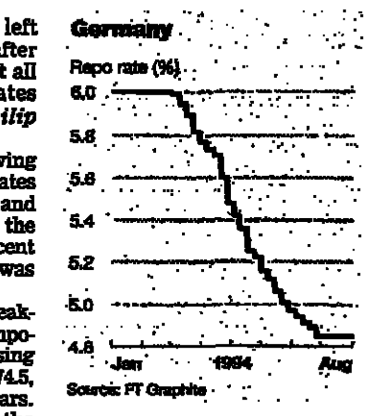
Both the president and prime minister denied this claim, but it served as a reminder of the fragile nature of Italy's ruling coalition. The episode also cast doubt on whether the requisite political resolve exists to deal with difficult issues, like curbing state spending.

■ The Bundesbank's decision to leave its official rates unchanged, and to fix the repo rate at 4.85 per cent for a further two weeks, elicited limited market response. The December Euromark contract traded 27,315 lots to close at 94.84 from 94.88. The decision was fairly widely predicted.

■ Scandinavian currencies have recently been surprisingly firm, but Mr Muj King, global director of forex and money markets at Technical Data in London, predicted that a correction of "several big figures" was due. "This retreat is especially possible because the Bundesbank is at the end of a cycle of cuts and thus German interest rates are likely to firm and have an adverse effect on the Scandinavian bloc."

■ The Bank of England provided UK money markets with £462m assistance, at established rates, compared to a forecast shortage of £500m. Overnight money traded between 3¾ per cent and 5 per cent.

Germany



Source: FT Graphics

■ Pound in New York

Sep 1	— Latest —	— Prev. close —
£ spot	1.5435	1.5335
1 mth	1.5433	1.5333
3 mth	1.5418	1.5316
1 yr	1.5290	1.5180

■ OTHER CURRENCIES

Sep 1	£	$
Hungary	165.495 - 166.260	108.130 - 108.230
Iran	2661.80 - 2684.00	1746.00 - 1753.00
Kuwait	0.4592 - 0.4601	0.2982 - 0.2988
Poland	35032.4 - 35070.9	22670.0 - 22690.0
Russia	3272.25 - 3377.85	2160.00 - 2193.00
U.A.E.	5.6573 - 5.6687	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Sep 1		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.0966	+0.0299	872 - 060	17.1060	17.0510	17.0933	0.3	17.0804	0.4	-	-	115.0
Belgium	(BFr)	49.9882	+0.0773	611 - 452	50.0462	49.8600	49.9683	0.3	50.0132	-0.1	49.7602	0.4	115.5
Denmark	(DKr)	9.5772	+0.0142	725 - 818	9.5918	9.5601	9.5844	-0.9	9.6041	-1.1	9.6384	-0.6	116.2
Finland	(FM)	7.8409	+0.0021	307 - 511	7.8611	7.8080	-	-	-	-	-	-	84.0
France	(FFr)	8.3130	+0.0132	090 - 180	8.3211	8.2814	8.3168	-0.5	8.3172	-0.2	8.2804	0.4	109.6
Germany	(DM)	2.4290	+0.0039	276 - 301	2.4314	2.4217	2.429	0.0	2.4284	0.4	2.3978	1.3	125.6
Greece	(Dr)	368.825	+0.91	474 - 175	369.178	366.486	-	-	-	-	-	-	-
Ireland	(I£)	1.0127	-0.0007	118 - 135	1.0154	1.0110	1.0131	-0.5	1.0146	-0.7	1.0203	-0.7	104.5
Italy	(L)	2435.80	+8.7	442 - 678	2437.26	2423.59	2442.6	-3.4	2455.1	-3.2	2518.6	-3.4	75.7
Luxembourg	(LFr)	49.9882	+0.0773	611 - 452	50.0462	49.8600	49.9833	0.3	50.0132	-0.1	49.7932	0.4	115.5
Netherlands	(Fl)	2.7250	+0.0034	233 - 266	2.7270	2.7180	2.7252	-0.1	2.7222	0.4	2.6803	1.3	120.4
Norway	(NKr)	10.6382	+0.003	332 - 432	10.6501	10.6181	10.6392	0.2	10.6457	-0.3	10.6317	0.1	96.0
Portugal	(Es)	247.311	+0.395	163 - 458	247.569	246.884	248.041	-3.4	250.221	-7.9	-	-	-
Spain	(Pta)	201.364	+0.505	221 - 506	201.703	200.832	201.804	-2.6	202.839	-2.5	205.864	-2.0	85.8
Sweden	(SKr)	11.8547	-0.0175	431 - 662	11.8953	11.8301	11.8762	-2.2	11.9097	-2.4	12.1472	-2.5	74.3
Switzerland	(SFr)	2.0395	-0.0041	364 - 405	2.0454	2.0360	2.0381	0.8	2.0357	1.1	2.0014	1.9	121.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.1
Ecu	-	1.2713	+0.0016	706 - 719	1.2723	1.2689	1.2721	-0.7	1.2727	-0.4	1.2723	-0.1	-
SDR†	-	0.943742	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5401	+0.0038	395 - 406	1.5406	1.5317	-	-	-	-	-	-	-
Brazil	(R)	1.3682	-0.002	612 - 651	1.3881	1.3578	-	-	-	-	-	-	-
Canada	(C$)	2.1066	-0.0008	055 - 077	2.1077	2.0965	2.108	0.4	2.1082	0.1	2.106	0.0	86.9
Mexico	(New Peso)	5.2194	+0.0037	136 - 249	5.2249	5.1977	-	-	-	-	-	-	-
USA	($)	1.5403	+0.0038	398 - 408	1.5406	1.5319	1.5401	0.2	1.5385	0.5	1.5257	0.9	62.2
Pacific/Middle East/Africa													
Australia	(A$)	2.0730	+0.0091	716 - 743	2.0743	2.0637	2.0729	0.0	2.0743	-0.3	2.0925	-0.9	-
Hong Kong	(HK$)	11.9022	+0.0286	985 - 070	11.9070	11.8368	11.899	0.4	11.8879	0.2	11.9046	0.0	-
India	(Rs)	48.3212	+0.1231	997 - 426	48.3426	48.0630	-	-	-	-	-	-	-
Japan	(Y)	153.514	-0.405	425 - 602	153.870	153.170	153.204	2.4	152.519	3.1	147.634	3.8	189.7
Malaysia	(M$)	3.9291	+0.0097	271 - 400	3.9426	3.9211	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5546	+0.0024	527 - 565	2.5565	2.5405	2.5596	-1.6	2.5663	-1.8	2.5885	-1.5	-
Philippines	(Peso)	40.7026	+0.0621	196 - 853	40.8853	40.4021	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7768	+0.0143	745 - 789	5.7789	5.7455	-	-	-	-	-	-	-
Singapore	(S$)	2.3102	+0.0062	097 - 120	2.3120	2.2985	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.4903	+0.0127	217 - 279	5.5279	5.4660	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.9776	+0.0833	599 - 952	6.9952	6.9006	-	-	-	-	-	-	-
South Korea	(Won)	1232.86	+2.81	230 - 341	1233.41	1226.29	-	-	-	-	-	-	-
Taiwan	(T$)	40.4175	+0.1856	997 - 352	40.4352	40.1955	-	-	-	-	-	-	-
Thailand	(Bt)	38.5460	+0.072	181 - 738	38.5739	38.3660	-	-	-	-	-	-	-

†SDR rates for Aug 31. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.0995	-0.008	970 - 020	11.1360	11.0920	11.0995	0.0	11.0993	0.0	11.0245	0.7	104.1
Belgium	(BFr)	32.4600	-0.03	400 - 800	32.5770	32.4400	32.485	-0.9	32.5	-0.5	32.52	-0.5	105.7
Denmark	(DKr)	6.2177	-0.0082	167 - 187	6.2437	6.2167	6.2242	-1.2	6.2452	-1.8	6.3227	-1.7	104.7
Finland	(FM)	5.0935	-0.0112	855 - 955	5.1092	5.0855	5.092	-0.6	5.1045	-1.1	5.1795	-1.7	78.6
France	(FFr)	5.3970	-0.0048	955 - 985	5.4195	5.3930	5.4	-0.7	5.407	-0.7	5.3955	0.6	106.1
Germany	(DM)	1.5770	-0.0013	767 - 772	1.5830	1.5754	1.5772	-0.2	1.5773	-0.1	1.5715	0.3	106.6
Greece	(Dr)	239.450	-	300 - 600	240.450	238.600	239.75	-1.5	240.425	-1.6	243.225	-1.6	69.0
Ireland	(I£)	1.5211	+0.0049	203 - 218	1.5218	1.5113	1.52	0.9	1.5181	1.0	1.4845	1.7	-
Italy	(L)	1581.25	+1.75	100 - 150	1588.70	1581.00	1586	-3.6	1595.75	-3.7	1650.75	-4.4	76.3
Luxembourg	(LFr)	32.4600	-0.03	400 - 800	32.5770	32.4400	32.465	-0.9	32.5	-0.5	32.52	-0.2	105.7
Netherlands	(Fl)	1.7691	-0.0022	686 - 696	1.7758	1.7679	1.7692	-0.1	1.7694	-0.1	1.7634	0.3	105.2
Norway	(NKr)	6.9096	-0.0151	056 - 076	6.9364	6.9056	6.9091	-0.4	6.9216	-0.9	6.9395	1.0	96.0
Portugal	(Es)	160.580	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	130.750	+0.005	680 - 780	131.300	130.660	131.055	-3.0	131.595	-3.0	134.55	-2.9	80.7
Sweden	(SKr)	7.6963	-0.0305	913 - 013	7.7553	7.6913	7.7138	-2.7	7.7543	-3.0	7.9563	-3.4	78.3
Switzerland	(SFr)	1.3232	-0.0029	226 - 238	1.3326	1.3226	1.3223	0.7	1.3219	0.7	1.3118	0.9	106.4
UK	(£)	1.5403	+0.0038	398 - 408	1.5406	1.5319	1.5401	0.2	1.5385	0.5	1.5257	0.9	87.4
Ecu	-	1.2117	+0.0015	114 - 119	1.2119	1.2070	1.2108	0.9	1.2089	0.9	1.2013	0.9	-
SDR†	-	1.44770	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R)	0.8880	-0.0035	840 - 920	0.8880	0.8840	-	-	-	-	-	-	-
Canada	(C$)	1.3677	-0.0039	674 - 679	1.3682	1.3655	1.3685	-0.7	1.3698	-0.6	1.3807	-1.0	83.2
Mexico	(New Peso)	3.3885	-0.006	860 - 910	3.3930	3.3860	3.3895	-0.4	3.3913	-0.3	3.3967	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.3
Pacific/Middle East/Africa													
Australia	(A$)	1.3459	+0.0021	454 - 463	1.3468	1.3454	1.3462	-0.2	1.3469	-0.3	1.3542	-0.6	86.4
Hong Kong	(HK$)	7.7277	-0.0003	275 - 278	7.7278	7.7272	7.7274	0.0	7.7268	0.0	7.7432	-0.2	-
India	(Rs)	31.3713	+0.0025	676 - 750	31.3750	31.3675	31.4563	-3.3	31.6013	-2.9	-	-	-
Japan	(Y)	99.6650	-0.51	400 - 900	100.290	99.6000	99.465	2.4	99.015	2.6	96.75	2.9	148.5
Malaysia	(M$)	2.5574	-0.0005	571 - 576	2.5615	2.5571	2.5592	-0.8	2.5598	-0.4	2.6104	-2.1	-
New Zealand	(NZ$)	1.6585	-0.0025	576 - 592	1.6620	1.6585	1.6594	-0.7	1.6613	-0.7	1.6668	-0.5	-
Philippines	(Peso)	26.4250	-0.025	000 - 500	26.5000	26.2500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	502 - 506	3.7505	3.7503	3.7517	-0.4	3.7558	-0.6	3.7744	-0.6	-
Singapore	(S$)	1.5003	+0.0003	000 - 005	1.5005	1.4999	1.4993	1.1	1.497	0.9	1.4903	0.7	-
S Africa (Com.)	(R)	3.5565	-0.0005	550 - 575	3.5675	3.5550	3.5903	-4.2	3.6005	-4.9	3.7073	-4.2	-
S Africa (Fin.)	(R)	4.5300	+0.005	200 - 400	4.5400	4.4950	4.5837	-5.4	-	-	-	-	-
South Korea	(Won)	800.400	-0.15	300 - 500	800.800	800.300	803.4	-4.5	808.9	-4.2	835.4	-3.1	-
Taiwan	(T$)	26.2400	+0.045	350 - 450	26.2550	26.2300	26.26	-0.9	26.3	-0.9	-	-	-
Thailand	(Bt)	25.0250	-0.015	150 - 350	25.0450	25.0150	25.0975	-3.5	25.225	-3.2	25.705	-2.7	-

†SDR rate for Aug 31. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Aug 31. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.16	16.63	4.859	2.026	4871	5.451	21.28	494.7	402.7	23.70	4.079	2.000	4.215	3.081	307.1	2.543
Denmark	(DKr)	52.20	10	8.680	2.536	1.058	2543	2.845	11.11	258.2	210.2	12.37	2.129	1.044	2.200	1.608	160.3	1.327
France	(FFr)	60.13	11.52	10	2.922	1.219	2929	3.278	12.80	297.5	242.2	14.25	2.453	1.203	2.535	1.853	184.7	1.529
Germany	(DM)	20.58	3.943	3.422	1	0.417	1002	1.122	4.380	101.8	82.87	4.876	0.839	0.412	0.867	0.634	63.19	0.523
Ireland	(I£)	49.35	9.454	8.206	2.398	1	2404	2.690	10.50	244.1	198.7	11.70	2.013	0.987	2.080	1.520	151.5	1.255
Italy	(L)	2.053	0.393	0.341	0.100	0.042	100.	0.112	0.437	10.16	8.267	0.487	0.084	0.041	0.087	0.063	6.304	0.052
Netherlands	(Fl)	18.34	3.514	3.051	0.891	0.372	893.6	1	3.905	90.75	73.87	4.349	0.748	0.367	0.773	0.565	56.33	0.466
Norway	(NKr)	46.98	9.001	7.813	2.283	0.952	2289	2.561	10	232.4	189.2	11.14	1.916	0.940	1.980	1.447	144.3	1.195
Portugal	(Es)	20.21	3.873	3.362	0.982	0.410	984.6	1.102	4.302	100.	81.40	4.792	0.825	0.404	0.852	0.623	62.07	0.514
Spain	(Pta)	24.83	4.758	4.130	1.207	0.503	1210	1.354	5.286	122.8	100.	5.887	1.013	0.497	1.047	0.765	76.25	0.631
Sweden	(SKr)	42.19	8.082	7.015	2.050	0.855	2055	2.300	8.979	208.7	169.9	10	1.721	0.844	1.778	1.300	129.5	1.073
Switzerland	(SFr)	24.52	4.697	4.077	1.191	0.497	1194	1.336	5.218	121.3	98.72	5.812	1	0.490	1.033	0.755	75.28	0.623
UK	(£)	49.99	9.577	8.313	2.429	1.013	2435	2.725	10.64	247.3	201.3	11.85	2.039	1	2.107	1.540	153.5	1.271
Canada	(C$)	23.73	4.546	3.945	1.153	0.481	1156	1.293	5.050	117.4	95.54	5.624	0.968	0.475	1	0.731	72.86	0.603
US	($)	32.46	6.219	5.398	1.577	0.658	1581	1.769	6.909	160.6	130.7	7.695	1.324	0.649	1.368	1	99.68	0.825
Japan	(Y)	325.7	62.39	54.16	15.82	6.599	15863	17.76	69.32	1611	1311	77.20	13.28	6.515	13.73	10.03	1000.	8.280
Ecu		39.33	7.535	6.541	1.911	0.797	1916	2.144	8.371	194.6	158.4	9.323	1.604	0.787	1.658	1.212	120.8	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

EMS EUROPEAN CURRENCY UNIT RATES

Sep 1	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.15172	+0.00082	-2.05	5.25	5
Belgium	40.2123	39.4690	+0.0207	-1.85	5.04	13
Germany	1.94964	1.91798	+0.00179	-1.62	4.80	15
Ireland	0.808628	0.798665	-0.001457	-1.23	4.38	8
France	6.53883	6.58000	-0.00433	0.35	2.73	-3
Portugal	192.854	195.314	+0.288	1.28	1.80	-9
Denmark	7.43679	7.56282	-0.00131	1.69	1.38	-12
Spain	154.250	159.028	-0.076	3.10	0.00	-22
NON ERM MEMBERS						
Greece	264.513	291.225	+0.443	10.10	-6.36	-
Italy	1793.19	1921.66	-3.76	7.17	-3.80	-
UK	0.786749	0.789930	-0.000526	0.33	2.76	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6320	0.6327	+0.0003	0.6331	0.6317	23,886	96,9965
Dec	0.6325	0.6326	-0.0002	0.6330	0.6318	9,823	14,371
Mar	0.6322	0.6325	-0.0011	0.6325	0.6322	32	2,886

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.9997	1.0010	+0.0011	1.0011	0.9984	12,895	58,596
Dec	1.0060	1.0076	+0.0008	1.0076	1.0060	1,413	11,212
Mar	1.0140	1.0140	+0.0002	1.0140	1.0140	34	1,747

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7508	0.7530	+0.0023	0.7535	0.7505	11,239	36,700
Dec	0.7540	0.7543	+0.0023	0.7548	0.7534	49547	5,567
Mar	-	0.7558	-	0.7558	-	1	60

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5356	1.5364	+0.0018	1.5376	1.5344	4,223	33,807
Dec	1.5340	1.5338	+0.0006	1.5350	1.5320	744	2,317
Mar	-	1.5294	+0.0004	-	-	1	197

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Sep	Oct	Nov	PUTS Sep	Oct	Nov
1.450	8.48	8.39	8.43	-	-	0.11
1.475	5.96	6.06	6.24	-	0.11	0.38
1.500	3.55	3.93	4.28	0.04	0.45	0.89
1.525	1.53	2.22	2.67	0.44	1.18	1.76
1.550	0.36	1.04	1.56	1.75	2.48	3.02
1.575	0.03	0.40	0.80	3.84	4.27	4.74

Previous day's vol., Calls 9,445 Puts 2,375 . Prev. day's open int., Calls 589,854 Puts 421,523

WORLD INTEREST RATES

MONEY RATES

September 1	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4⅞	5¼	5½	5⅞	6⅝	7.40	4.50	-
week ago	4 13/16	5⅛	5¾	6	6½	7.40	4.50	-
France	5⅜	5⅝	5¾	5⅞	6⅝	5.00	-	6.75
week ago	5⅜	5⅝	5⅝	5⅝	6⅜	5.00	-	6.75
Germany	4.90	4.95	4.95	5.02	5.33	6.00	4.50	4.85
week ago	4.80	4.95	4.95	5.00	5.33	6.00	4.50	4.85
Ireland	4⅞	5½	6⅜	6⅜	7⅝	-	-	6.25
week ago	4⅞	5½	6⅜	6⅜	7⅝	-	-	6.25
Italy	8½	8⅜	8¾	9¾	10⅜	-	7.50	8.45
week ago	8½	8⅜	8⅜	9⅜	10⅜	-	7.50	8.45
Netherlands	4.84	4.93	4.99	5.11	5.42	-	5.25	-
week ago	4.85	4.93	4.98	5.12	5.42	-	5.25	-
Switzerland	3⅞	4⅜	4⅜	4½	4⅞	6.625	3.50	-
week ago	3⅝	4⅜	4⅝	4½	4⅞	6.625	3.50	-
US	4⅞	4⅞	4⅞	5¼	5¾	-	4.00	-
week ago	4⅝	4⅞	4⅞	5⅜	5⅞	-	4.00	-
Japan	2⅛	2½	2⅛	2⅜	2⅞	-	1.75	-
week ago	2⅜	2½	2⅛	2⅜	2⅞	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	4⅞	5	5⅜	5⅞	-	-	-
week ago	-	4⅞	4⅞	5¼	5¾	-	-	-
US Dollar CDs	-	4.65	4.80	5.07	5.58	-	-	-
week ago	-	4.65	4.78	5.07	5.61	-	-	-
SDR Linked Ds	-	3⅛	3⅜	3¾	4	-	-	-
week ago	-	3½	3⅜	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅝; 3 mths: 5⅞; 6 mths: 6¼; 1 year: 6⅝. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 1	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 13/16 - 4 11/16	5 - 4⅞	5⅛ - 5	5 7/16 - 5 5/16	5⅞ - 5¾	6⅜ - 6¼
Danish Krone	5⅛ - 4⅞	5⅜ - 5¼	6 - 5½	6½ - 6¼	7¼ - 7	7⅝ - 7⅜
D-Mark	4 15/16 - 4 13/16	4 15/16 - 4 13/16	4 15/16 - 4 13/16	5 - 4⅞	5⅛ - 5	5⅜ - 5¼
Dutch Guilder	4⅞ - 4¾	4 15/16 - 4 13/16	4⅞ - 4¾	5 - 4⅞	5 3/16 - 5 1/16	5 9/16 - 5 7/16
French Franc	5⅜ - 5¼	5 7/16 - 5 5/16	5½ - 5⅜	5⅝ - 5½	5 15/16 - 5 13/16	6⅜ - 6¼
Portuguese Esc.	12⅛ - 11⅞	10⅛ - 10	11½ - 11	11¾ - 11¼	11⅝ - 11⅛	11 13/16 - 11 5/16
Spanish Peseta	7 7/16 - 7 5/16	7 7/16 - 7 5/16	7⅝ - 7½	7 13/16 - 7 11/16	8⅜ - 8⅛	8⅞ - 8⅝
Sterling	4½ - 4⅜	4⅝ - 4½	4 13/16 - 4 11/16	5 11/16 - 5 9/16	6 - 5⅞	6⅞ - 6¾
Swiss Franc	4 - 3⅞	4⅛ - 3⅞	4 5/16 - 4 3/16	4 7/16 - 4 5/16	4½ - 4⅜	4 13/16 - 4 11/16
Can. Dollar	5⅛ - 5⅛	5⅛ - 5⅛	5¼ - 5⅛	5½ - 5⅜	6 - 5⅞	6 13/16 - 6 11/16
US Dollar	4⅞ - 4¾	4 13/16 - 4 11/16	4⅞ - 4¾	5 - 4⅞	5 7/16 - 5 5/16	5 13/16 - 5 11/16
Italian Lira	9 - 7½	8⅛ - 8⅛	8⅞ - 8⅜	8 13/16 - 8 11/16	9 7/16 - 9 5/16	10⅜ - 10¼
Yen	2 5/16 - 2⅛	2⅜ - 2⅛	2⅜ - 2¼	2 7/16 - 2⅜	2½ - 2⅜	2⅞ - 2¾
Asian $Sing	3⅞ - 3¾	3⅞ - 3¾	4 5/16 - 4 3/16	4⅝ - 4½	5 5/16 - 5 3/16	5 13/16 - 5 11/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.29	94.32	+0.05	94.32	94.27	10,500	42,162
Dec	93.85	93.89	+0.06	93.89	93.81	15,631	45,737
Mar	93.53	93.54	+0.05	93.54	93.47	6,684	29,684
Jun	93.23	93.24	+0.04	93.24	93.17	1,554	27,111

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.96	94.96	+0.01	94.96	94.96	130	2810
Dec	-	94.30	+0.01	-	-	0	1867
Mar	-	94.03	-	-	-	0	1436
Jun	-	93.71	+0.01	-	-	0	334

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.05	95.01	-0.03	95.05	95.00	17492	140424
Dec	94.89	94.84	-0.04	94.89	94.83	27573	160941
Mar	94.58	94.55	-0.04	94.60	94.53	16693	156401
Jun	94.27	94.23	-0.05	94.28	94.20	16597	100132

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.05	91.07	-0.01	91.10	91.02	3119	22494
Dec	90.09	90.06	-0.06	90.13	90.04	6372	35368
Mar	89.57	89.52	-0.07	89.57	89.46	961	17768
Jun	89.18	89.13	-0.05	89.18	89.11	495	13435

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.67	95.68	-	95.69	95.66	1734	18510
Dec	95.36	95.31	-0.04	95.36	95.27	3808	14348
Mar	95.09	95.05	-0.03	95.10	95.04	1020	11803
Jun	94.81	94.75	-0.02	94.81	94.75	574	5772

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.03	94.03	-	94.08	93.99	718	9334
Dec	93.52	93.53	-	93.55	93.49	737	7375
Mar	93.19	93.17	-0.01	93.19	93.15	177	4198
Jun	92.80	92.77	-0.01	92.80	92.75	52	1626

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.96	94.96	+0.01	94.96	94.95	39,675	398,809
Dec	94.31	94.30	-	94.31	94.28	70,791	489,468
Mar	94.04	94.04	-	94.05	94.03	44,527	370,718

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	95.38	95.37	-	95.38	95.37	1,502	12,555
Dec	94.85	94.86	+0.01	94.85	94.85	362	10,016
Mar	94.56	94.55	-	94.56	94.54	34	3,690

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Sep	Oct	Nov	Dec	PUTS Sep	Oct	Nov	Dec
9500	0.04	0.04	0.07	0.09	0.03	0.20	0.23	0.25
9525	0	0.01	0.03	0.03	0.24	0.42	0.44	0.44
9550	0	0	0.01	0.02	0.48	0.66	0.67	0.68

Est. vol. total, Calls 6186 Puts 5929. Previous day's open int., Calls 252131 Puts 181760

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9550	0.19	0.06	0.12	0.01	0.25	0.57
9575	0.02	0.02	0.07	0.09	0.46	0.77
9600	0	0.01	0.03	0.32	0.70	0.98

Est. vol. total, Calls 0 Puts 50. Previous day's open int., Calls 2305 Puts 1715

UK INTEREST RATES

LONDON MONEY RATES

Sep 1	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5 - 3¼	4 11/16 - 4⅝	5 - 4⅞	5½ - 5⅜	6 - 5⅞	6⅞ - 6¾
Sterling CDs	-	-	4 13/16 - 4 11/16	5 7/16 - 5⅜	5 13/16 - 5⅞	6 13/16 - 6 11/16
Treasury Bills	-	-	4⅞ - 4 13/16	5 7/16 - 5 5/16	-	-
Bank Bills	-	-	4⅞ - 4 13/16	5 7/16 - 5 5/16	5 13/16 - 5⅞	-
Local authority deps.	4 7/16 - 4 5/16	4 13/16 - 4⅝	4 13/16 - 4⅞	5 11/16 - 5 9/16	5 15/16 - 5 13/16	6 13/16 - 6 11/16
Discount Market deps	5¼ - 4¾	4¾ - 4⅝	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.3537pc. ECGD fixed rate Stg. Export Finance. Make up day Aug 31, 1994. Agreed rate for period Sep 26, 1994 to Oct 25, 1994, Schemes II & III 6.82pc. Reference rate for period July 30, 1994 to Aug 31, 1994, Schemes IV & V 5.578pc. Finance House Base Rate 5½pc from Aug 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.29	94.30	+0.03	94.32	94.28	7640	88257
Dec	93.41	93.43	+0.03	93.47	93.41	15781	164223
Mar	92.72	92.74	+0.03	92.76	92.72	7305	87927
Jun	92.20	92.21	+0.06	92.23	92.18	2848	52887

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9425	0.16	0.05	0.03	0.11	0.87	1.54
9450	0.04	0.02	0.02	0.24	1.09	1.78
9475	0	0.01	0.01	0.45	1.33	2.02

Est. vol. total, Calls 4167 Puts 10190. Previous day's open int., Calls 348058 Puts 289861

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williman Secs	5.25
●Henry Ansbacher	5.25	●Robert Fleming & Co	5.25	TSB	5.25
Bank of Baroda	5.25	Girobank	5.25	●United Bk of Kuwait	5.25
Banco Bilbao Vizcaya	5.25	●Guinness Mahon	5.25	Unity Trust Bank Plc	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Western Trust	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Heritable & Gen Inv Bk	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	●Hill Samuel	5.25		
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25		
●Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	●Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	* Mount Banking	6		
Credit Lyonnais	5.25	NatWestminster	5.25		
Cyprus Popular Bank	5.25	●Rea Brothers	5.25		

● Members of London Investment Banking Association
* In administration

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

Standard Chartered

Standard Chartered PLC
(Incorporated with limited liability in England)

£150 million Subordinated Floating Rate Notes due 1996

In accordance with the provisions of the Notes, notice is hereby given that for the three month period from 31st August 1994 to 30th November 1994 the Notes will bear interest at the rate of 5.6625 per cent per annum.

Interest per £5,000 Note will amount to £70.59 and will be paid for value 30th November 1994 against surrender of Coupon No 34.

West Merchant Bank Limited
Agent Bank

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Sterling Floating Rate Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period from August 31st, 1994 to November 30th, 1994, has been fixed at 5.6675 per cent. per annum.
On November 30th, 1994 interest of sterling 70.90 per sterling 5,000 nominal amount of the Notes, and interest of sterling 354.49 per sterling 25,000 nominal amount of the Notes, will be due against Coupon No. 40.

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WORLD STOCK MARKETS

EUROPE

PACIFIC

NORTH AMERICA

AFRICA

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (Daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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TOKYO - MOST ACTIVE STOCKS: Thursday, September 1, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	16.4m	361	+6	Obayishi Corp	6.7m	748	+20
NKK Corp	13.8m	292	+7	OKI Elec	4.8m	789	-1
Kawasaki Steel	11.3m	434	+11	Nitsuko Corp	4.5m	1,590	-30
S'tomo Metal	10.7m	346	+5	Kobe Steel	4.0m	329	+9
M'bishi Rayon	8.4m	463	-9	NEC Corp	3.7m	1,210	-10

INDICES

	Sep 1	Aug 31	Aug 30	1994 High		1994 Low	
Italy							
Banca Comm Ital (1972)	698.01	690.53	698.92	817.17	10/5	588.65	10/1
MIB General (4/1/94)	1109.0	1116.0	1114.0	1318.80	10/5	944.09	10/1
Japan							
Nikkei 225 (16/5/49)	20642.93	20628.53	20592.12	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	299.22	299.25	298.16	311.71	13/6	258.22	4/1
Topix (4/1/68)	1639.91	1640.39	1637.37	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2405.61	2422.90	2426.88	2542.65	8/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	1158.34	(c)	1130.01	1314.46	5/1	928.33	4/4
Thailand							
Bangkok SET (30/4/75)	1525.84	1524.83	1492.53	1753.73	4/1	1198.59	4/4
Turkey							
Istanbul Comp.(Jan 1986)	25795.70	25292.43	25486.08	28893.80	13/1	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)§	642.1*	643.7	643.0	643.70	1/9	591.80	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1398.82	1405.52	1401.90	1540.19	31/1	1303.48	21/6
Euro Top-100 (26/6/90)	1229.20	1238.36	1237.55	1311.01	2/2	1149.08	21/6
JCapaDrgns (31/12/88)	(u)	341.27	335.51	385.89	5/1	290.28	21/3
Barings Emerg.(7/1/92)	186.14	185.97	185.88	196.91	23/8	141.65	21/4

CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Sep	2072.0	2041.0	-38.0	2073.0	2040.0	21,792	40,987
Oct	2086.0	2051.0	-38.0	2086.0	2065.0	189	3,047
Dec	2108.0	2071.0	-38.0	2108.0	2089.0	-	4,098

Open interest figures for previous day.

** Sat Aug 27 Taiwan Weighted Price 6953.04; Korea Comp Ex 941.23. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7, JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Sep 1 - 2185.78 -21.31

US INDICES

Dow Jones	Aug 31	Aug 30	Aug 29	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3913.42	3917.30	3898.65	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	98.17	98.00	97.96	105.91 (21/1)	96.43 (13/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1642.22	1631.64	1626.82	1862.29 (2/2)	1546.02 (20/4)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	189.16	189.89	188.83	227.96 (3/1)	176.71 (24/6)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3954.54 (3934.14) Low 3878.78 (3876.54) (Theoretical♦)
Day's high 3939.32 (3920.54) Low 3906.62 (3888.82) (Actual♦)

Standard and Poors	Aug 31	Aug 30	Aug 29	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	475.49	476.07	474.59	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials¶	558.19	559.08	556.96	580.59 (2/2)	510.05 (21/4)	580.59 (2/2/94)	3.62 (21/6/32)
Financial	46.59	46.58	46.50	48.94 (14/6)	41.39 (4/4)	48.49 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	261.99	262.10	261.28	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	454.34	452.69	451.48	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	765.62	766.46	763.21	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

RATIOS

	Aug 26	Aug 19	Aug 12	Year ago
Dow Jones Ind. Div. Yield	2.64	2.73	2.70	2.80
	Aug 31	Aug 24	Aug 17	Year ago
S & P Ind. Div. yield	2.33	2.37	2.43	2.46
S & P Ind. P/E ratio	21.11	20.73	23.51	27.86

STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	474.10	474.05	-0.05	474.45	473.90	68,802	184,708
Dec	-	476.75	-2.15	-	-	6,363	53,908
Mar	-	460.00	-2.25	-	-	200	4,412

Open interest figures are for previous day.

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
RJR Nabisco	15,379,900	6⅝	+⅛
Philip Morris	8,720,000	60⅜	+2¾
Ford Motor	7,175,600	29¾	-1⅛
Limited	6,066,800	20	-¼
Lac Mines	4,238,600	11	—
Compaq Com	4,079,100	37¼	-1½
Micron	3,873,800	40¼	-3¼
Merck	3,364,500	34⅜	+⅛
Telefonos	3,283,900	62½	-1⅜
Chrysler	3,134,800	48	-1½

TRADING ACTIVITY

● Volume (million)

	Aug 31	Aug 30	Aug 29
New York SE	357.592	294.522	268.071
Amex	18.826	15.177	18.190
NASDAQ	293.766	271.030	260.726
NYSE			
Issues Traded	2,873	2,859	2,856
Rises	1,216	1,276	1,230
Falls	946	837	897
Unchanged	711	746	729
New Highs	85	94	95
New Lows	18	21	29

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅞	13¾	AAR	0.48	3.6	45	116	13½	d13¼	13⅜	-⅛
16⅞	12⅝	A L Labs A	0.18	1.1	36	244	16¼	15½	16¼	+¼
75¼	57⅝	AMP	1.68	2.3	25	1206	72¼	71¼	72¼	-½
72¾	52½	AMR			103	2628	60	58¼	58¼	-1
5	3⅞	ARX			13	199	4⅛	4	4	
58⅛	38⅝	ASA	2.00	4.0	33	1246	50⅜	49⅝	50	+½
31⅞	25⅞	AbbtL	0.76	2.5	17	3609	30	29¾	29⅞	-⅛
14⅞	11⅞	Abitibi Pr	0.50	3.5	10	142	u14⅞	14¼	14¼	
25⅞	17¼	ABM Ind	0.52	2.3		23	22¾	22⅛	22⅝	-½
16⅛	11⅛	Acptncoin			26	122	u15⅛	15	15⅛	
31	22⅝	ACE Ltd	0.44	1.9	36	1692	23⅛	22¾	23	-⅛
12½	9⅝	ACM Gvt In x	1.08	11.1		334	9⅞	9¾	9⅞	
10⅛	7⅝	ACM GvOpp x	0.80	10.6		190	7½	d7⅜	7⅜	-⅛
10⅝	7½	ACM Gvt Sp x	0.96	12.6		139	7⅝	7⅝	7⅝	-⅛
12	8¾	ACM Gvt Se x	1.09	12.3		372	9	8⅞	8⅞	
11¾	8⅞	ACM Man x	1.08	12.2		104	8⅞	8¾	8⅞	
9¼	8	ACM Mungd x	0.72	9.0		47	8⅛	d8	8	
15½	8¾	AcmeClv	0.44	3.6	15	263	12½	12¼	12⅜	-⅛
9⅞	6½	Acme Elect			7	93	8½	8	8½	+⅛
28¼	23	Acordia x	0.60	2.3	13	20	26⅝	26⅛	26⅝	+⅝
13¾	5¾	Actava	0.36	3.0	3	3677	12⅛	11⅞	12⅛	-1⅜
15⅝	11¼	Acuson			107	649	14	13⅞	14	
18⅞	16½	Adams Expr	0.48	2.7	0	116	17¾	17⅝	17⅝	-⅛
84	46½	Ad Micro x	3.00	5.3		798	57¼	56⅝	57	-2¼
31¾	16¾	AdvMic	3.00	10.9	11	19420	27¾	27⅜	27½	-1½
6⅞	5	Advest Grp	0.16	2.9	6	49	5½	5⅜	5½	
20	15	Advo Inc	0.10	0.5	122	107	18⅝	18	18⅝	+⅜
58½	46⅝	Aegon ADR	1.47	2.6	12	57	56⅛	55½	55½	-1¼
65¾	49	AetnaL	2.76	5.5	7	2321	50⅛	d49	50⅛	+¼
36½	25¼	Aflac	0.48	1.3	15	1350	35⅞	35⅜	35¼	-⅛

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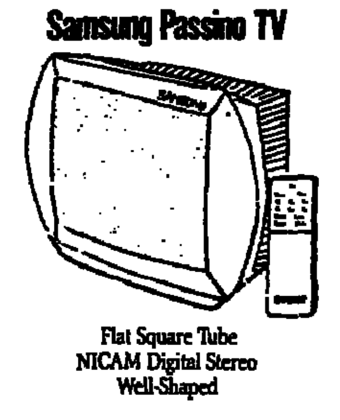
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ELECTRONICS

Continued on next page

4 pm close September 1

NYSE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		Continued from previous page								
[illegible]										

NASDAQ NATIONAL MARKET

4 pm close September 1

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX COMPOSITE PRICES

4 pm close September 1

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

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AMERICA

Earnings fears hit technology stocks hard

Wall Street

US share prices retreated yesterday morning when the outlook for computer stocks became clouded, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 10.69 lower at 3,902.73, while the Standard & Poor's 500 was down 2.21 at 473.29. The setback was broadly-based, with Big Board declines leading advances by a two-to-one margin. NYSE volume was moderate, with 171m shares traded by early afternoon.

In the secondary market, the American SE composite was off 1.01 at 453.33. The Nasdaq composite, with its heavy concentration of technology stocks, suffered more, dropping 5.32 to 760.30.

The day's economic news had an indirect impact on share prices. The National Association of Purchasing Management revealed that the prices-paid component of its August survey had risen to its highest level in six years.

With investors on edge ahead of today's employment data, the NAPM report was more than enough to encourage some profit-taking in cyclical stocks which led the market's recent rally. Caterpillar gave back $1¼ to $114¼ and International Paper $¾ to $76⅛.

But the most important cause of yesterday's weakness was a sudden loss of confidence in the health of the computer industry. The broad sell-off appeared to have been triggered by AST Research which, a day earlier, had warned that it would post a loss this quarter. The Nasdaq-listed stock plunged $4⅝ to $13⅜ as the news prompted at least two Wall Street securities houses to downgrade the issue.

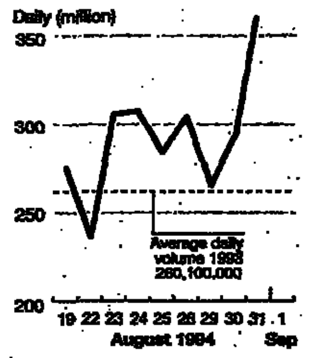
But the impact of the announcement was felt by a wide range of technology stocks. Among software developers, Microsoft lost $1⅛ to $56⅝. Among the chip suppliers, Motorola dropped $1⅛ to $52⅞, National Semiconductor $1⅛ at $17⅞ and Advanced Micro Devices $1⅞ to $27⅞.

The big computer manufacturers were not spared, either. Compaq was marked down $1⅞ to $35⅞ with reports that it was trimming orders from suppliers adding fuel to the fire. Apple dropped $1⅜ to $35⅞ and IBM slipped $⅞ to $67⅞.

Some retailing stocks also came under pressure. The Gap plunged $3⅜ to $39⅝ after revealing that revenues from stores opened at least a year had fallen by 5 per cent last month. Dayton Hudson lost $2⅛ to $82⅝ when its same-store sales came in under expectations.

Elsewhere, Fingerhut made a rare appearance on the NYSE's most active list in volume of 3.1m shares. The stock plunged 16 per cent, or $4⅞ to $23⅞ as the mail-order merchandiser warned that its third-quarter profits would suffer as a result of start-up costs relating to a television shopping service.

NYSE volume



Canada

Toronto's TSE 300 composite index fell 21.21 to 4,323.29 in volume of 31.49m shares. Declines outpaced advances by 281 to 229 with 291 issues flat.

Cott Corp surged C$2⅛ to C$17 on its denials that a Loblaw soft drink contract was in any danger, and on a buy recommendation by Donaldson Lufkin Jenrette.

Brazil rises 2.1 per cent

São Paulo rose 2.1 per cent in moderate trade as prices rebounded from early losses after investors returned to the market on news that the central bank had taken fresh steps to control liquidity in the banking system.

The Bovespa index gained 1,098 at 54,393 at 1300 local time in turnover of R$214.3m ($242.1m).

Prices were also bolstered by two new opinion polls showing Mr Fernando Henrique Cardoso, the former economy minister, advancing further in the presidential race which improved his chances of winning the election outright in the first round of voting on October 3.

Mexico

Shares rose in early trade in a technical rebound after five days of losses. The IPC index put on 18.33 to 2,721.05 in the first hour of trading, as analysts suggested that wary investors were waiting for the victorious presidential candidate, Mr Ernesto Zedillo, to give an indication of the composition of the new cabinet.

Telmex L shares, available to foreigners, gained 1.5 per cent while the ADRs rose $⅝ to $53¼ in New York.

S Africa optimistic on gold

A growing mood of optimism over the bullion price outlook took gold and mining-related shares higher in Johannesburg. The gold index rose 42, or 1.9 per cent, to 2,331, the overall index added 35 to 5,868, and industrials put on 11 to 6,546.

De Beers recovered part of recent lost ground to add R1.75 to R105. Gencor made 40 cents at R13.90, Lonrho added 30 cents to R10 and Minorco rose R1 to R117.

Iscor improved 11 cents to R4.25 on improved annual results and a bullish outlook. Randcoal made gains after news of its merger with Trans-Natal, adding R1.75 to R25.75.

Loraine gained 75 cents to R22, Vaal Reefs rose R18 to R447 and Kloof added R1 to R68. Sasol gained 75 cents to R33.25.

EUROPE

Corporate results lose impact as bourses follow Wall Street

The intermittent and very recent ability of bourses to major on corporate performance was shelved again yesterday as the dollar weakened and Wall Street lost ground, *writes Our Markets Staff.*

PARIS ended little changed in domestic bond markets, but Wall Street's performance disheartened equity traders in the afternoon and the CAC 40 index ended 34.17, or 1.65 per cent lower at 2,034.91 in turnover of about FFr2.9bn.

There was some consolation in company results. Elf Aquitaine produced lower profits but said that good results from chemicals had offset weak oil prices. The shares fell FFr5.40 to FFr410.60 while its Sanofi, pharmaceuticals to perfumes subsidiary lost only FFr2 at FFr957 when it said that analysts' forecasts for 1994 were achievable.

Meanwhile, Bouygues fell sharply after the construction group told analysts that it was still suffering losses from its property interests. The shares closed FFr38 down at FFr650.

Banks fell after broad gains on Wednesday. CFF lost FFr38, or 3.8 per cent at FFr957 and BNP FFr6, or 3.2 per cent at FFr242.5. Alcatel Alsthom extended Wednesday's fall on renewed allegations of corporate misdeeds, ending FFr19 lower at FFr580. But Alcatel Cable rose FFr29, or 4.6 per cent to FFr656 on a study by the British Cable Television Association on pending investment in Europe.

FRANKFURT ended the session with the Dax index 12.05 lower at 2,200.80, in no way surprised by the Buba decision. The real damage was done in the afternoon as US equities and bonds, and German bund futures slid on the latest US inflation data, the Ibis-indicated Dax sliding to 2,185.73.

Turnover fell from DM8.3bn to DM6.4bn. Daimler-Benz, which rose DM3.50 to DM841 in further appreciation of Wednesday's first half results, succumbed after hours with a fall to DM831.40.

Similarly, Metallgesellschaft ended the afternoon down DM13, or 5.6 per cent at DM203 after a session fall of DM6 to DM205. On Wednesday, the company extricated itself from expensive links with Castle Energy of the US, but warned at the same time that existing provisions of around DM1bn would not be enough to cover its exposure.

ZURICH was unable to maintain early strength and prices turned lower, as investors were disappointed by the half year statement from Sandoz and depressed further late in the day by Wall Street's early performance. The SMI index fell 17.3 to 2,628.4.

Sandoz registered shares were SFr18 lower at SFr673 after the company's announcement that first half net profit rose by 2 per cent, compared with expectations of a 5-10 per cent advance.

Roche, still benefiting from switching out of other pharmaceutical issues saw its certificates surrender SFr20 to SFr6,080. The group is to release first half results, including a net profit figure, tomorrow.

Against the trend, Schindler climbed SFr150 to SFr7,600 and SMH picked up SFr3 to SFr169. Both moves were attributed to speculative buying.

AMSTERDAM finished at the day's low after losses in bonds, and weakness in the London and Frankfurt markets depressed financial issues. The AEX index fell 3.33 to 416.11.

Against the trend, VNU gained Fl 9.60 or 5.2 per cent to Fl 198.00 in response to its first half earnings which came along with a forecast of higher growth for the second half after the market closed on Wednesday.

Boskalis Westminster, the dredging company, dropped 10 cents to Fl 41.90 ahead of its results, which were in line with expectations and which came after the market closed.

BolsWessanen, the food and beverage group, remained under pressure losing another 40 cents down to Fl 36.50 after its lower-than-expected half year figures.

MILAN finished lower after a listless session which saw the Comit index lose 4.52 to 686.01, as the market awaited further developments on the budget and pensions. Investors were also digesting the the latest scrap between the coalition partners after Mr Umberto Bossi, leader of the Northern League, said that the prime minister, Mr Silvio Berlusconi, wanted a snap election.

Olivetti, which fell 5 per cent on Wednesday dipped another L8 to L2,115. However, it picked up from a day's low of L2,090 after the company ruled out a capital increase to finance a mobile telephones venture and said that first half turnover had risen by 7 per cent.

MADRID fielded a batch of corporate results, encouraging and otherwise, but it was unable to ignore Wall Street and high domestic bond yields. The general index fell 4.90, or 1.6 per cent to 307.12 in turnover of just under Pta20bn.

Banks did not like the bond yield focus, Argentaria losing Pta160, or 2.9 per cent at Pta5,330 and Bankinter Pta250 at Pta11,920. Among results, a big rise in profits from Iberdrola left the utility only Pta6 lower at Pta874 although Endesa dropped Pta170 at Pta5,680; but a small decline in half year profits left Dragados, the construction company, Pta90, or 4.1 per cent lower at Pta2,115.

STOCKHOLM liked the Astra results which took the shares up SKr7 to SKr183. Mr Paul Krikler at Goldman Sachs said that the bank had added the stock to its priority list. The Affärsvärlden General index rose 6.70 to 1,459.20.

WARSAW lost 4.9 per cent after Wednesday's 4.4 per cent drop, the Wig index closing 546.4 lower at 10,635.0 as brokers continued to hope for a technical rally.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Sep 1 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1402.80	1400.71	1401.47	1402.23	1402.88	1402.79	1398.35	1395.82
FT-SE Eurotrack 200	1468.93	1464.91	1464.91	1466.46	1466.86	1464.68	1461.15	1466.89

	Aug 31	Aug 30	Aug 26	Aug 25	Aug 24
FT-SE Eurotrack 100	1405.52	1401.80	1385.89	1378.77	1389.31
FT-SE Eurotrack 200	1469.56	1469.43	1446.58	1433.57	1419.52

Base 1000 (26/10/90). Highday: 100 - 1403.72 200 - 1469.94 Lowday: 100 - 1395.81 200 - 1466.29 † Partial

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Apr 1994	May 1994	June 1994	July 1994	US $bn
Belgium	69.93	73.08	71.22	43.50	1.33
France	145.17	175.15	215.7	145.26	26.75
Germany	188.00	151.07	165.42	127.41	80.18
Italy	105,964	99,228	59,404	49,940	31.45
Netherlands	25.20	21.80	26.40	18.40	10.33
Spain	1,160.49	1,340.00	1,308.75	1,282.19	9.82
Switzerland	23.93	26.12	21.63	18.58	13.81
UK	48.57	44.27	46.32	45.16	69.33

Volumes represent purchases and sales. Italian data adjusted to include off-market trading. Some figures may be revised. Source: NatWest Securities

European turnover figures for July were delayed, and reduced by the holiday season, 18 per cent down on June after falls of 3 per cent for that month and 8.6 per cent in May. This, says Mr James Cornish of NatWest Securities which produces the figures, was in spite of a 5.3 per cent gain in the FT-Actuaries Europe index after its 4.1 per cent fall in June. The smallest falls in turnover were in Spain and in the UK, down by just 1.8 and 2.5 per cent respectively; the biggest were in France and Belgium, each down by nearly one-third, followed by the Netherlands and Germany, down 30.3 per cent and 23 per cent.

ASIA PACIFIC

Nikkei edges higher as Kuala Lumpur advances 2.3%

Tokyo

Interest in telecommunications stocks propped up activity, but the Nikkei average only saw marginal gains due to profit-taking in popular issues, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 index added 14.40 to 20,642.93 after a low of 20,617.52 in the morning and a high of 20,700.54 during the afternoon session. After losing ground on selling by corporate investors, brokers tried to support telecommunications-linked stocks ahead of the Japan Telecom listing, while overseas investors and banks bought steels.

Volume totalled 354m shares, rising above the 300m level for the first time since August 17. In spite of the rise in volume, advances in share prices were capped by arbitrage unwinding and profit-taking ahead of the September book closing.

The Topix index of all first section stocks fell 0.48 to 1,639.91 while the Nikkei 300 declined 0.03 to 299.22. Losers outnumbered gainers by 513 to 412 with 225 unchanged and, in London, the ISE/Nikkei 50 index rose 1.37 to 1,388.91.

Steels gained ground on heavy buying with Nippon Steel, heading the list, gaining Y6 to Y381. NKK followed, rising Y7 to Y292 and Kawasaki Steel rose Y11 to Y434.

Construction companies were higher on reports that July orders for the top 50 construction companies posted the first year on year rise in 18 months. Shimizu rose Y30 to Y1,060 and Toda added Y29 to Y949.

Nippon Telegraph and Telephone closed up Y8,000 at Y920,000 after climbing to Y14,000 in the morning. DDI, the telecoms operator on the second section, fell Y30,000 to Y1m on profit-taking.

Banks were lower. Industrial Bank of Japan fell Y10 to Y3,010 and Mitsubishi Bank declined Y30 to Y2,590. Brokers were mixed with Daiwa Securities losing Y10 to Y1,560 and Nikko Securities up Y10 to Y1,200.

In Osaka, the OSE average rose 35.00 to 22,877.05 in volume of 92.5m shares. Volume rose on selling and buying back of shares by investors realising profits on their holdings ahead of the interim book closing.

Roundup

Regional markets moved in opposite directions.

KUALA LUMPUR made up for its day's holiday, gaining 2.3 per cent as foreign fund managers increased the weighting of their Malaysian holdings. The composite index rose 26.33 to 1,156.34, in volume of 374m shares.

Malaysia's biggest bank, Malayan Banking, led the advance with an 80 cent jump to M$17.20.

SINGAPORE saw a long-awaited run up as euphoria over property stocks and Malaysian shares spilled over into the rest of the market. The Straits Times Industrial index closed up 24.13 to 2,336.83.

Cycle & Carriage put on 90 cents to a year's high of S$12.80 amid rumours of an expensive bid for Caltex House, a prime commercial property.

WELLINGTON finished at a five month high, encouraged by the better-than-expected results from Fletcher Challenge on Wednesday.

The NZSE-40 Capital Index closed up 18.54 at 2,167.02, having picked up 11.4 per cent since its trough for the year on July 11. Turnover was NZ$51.3m. Fletcher Challenge closed up 11 cents at NZ$4.29, a high for the year, after the 13 cent rise on Wednesday.

JAKARTA closed firm in moderate trading following some positive first half earnings reports and the market index rose 2.45 to 512.71.

Consumer-related issues continued to drive the market with a 6.5 per cent GDP growth projection this year appearing to indicate more disposable income for consumption.

Pan Brothers rose Rp150 to Rp1,350 in active trading on good first-half results.

HONG KONG closed lower on profit-taking, after the cumulative 7.5 per cent rise over the the previous four days when foreigners were active buyers.

The Hang Seng Index finished 38.49 lower at 9,890.90, having recovered from the day's low of 9,830.02, in turnover of HK$6.66bn.

The profit-taking was focused on utilities with Hong Kong Telecom falling 30 cents to HK$16.70 and Hong Kong Electric 55 cents lower at HK$26.80.

The H share index jumped 76.48 or 5.9 per cent to 1,369.26 as fund managers reweighted their China stock holdings, prompted by the visit to China by the US Commerce Secretary, Mr Ron Brown. Yizheng rose 25 cents to HK$2.83.

SYDNEY saw profit-taking, as some recent corporate reports failed to excite the market and the All Ordinaries index lost 16.5 to 2,105.5.

Burns Philp eased 9 cents to A$3.75 after reporting a 12 per cent rise in profits and saying that it planned to focus on integrating acquisitions.

TAIPEI reversed early gains to close below the 7,000-point resistance level as profit-taking emerged in late trade on fears the central bank might tighten liquidity further within the banking system.

The weighted index fell 33.96 points, or 0.48 per cent, to end at 6,974.15, off an intra-day high of 7,085.80. Turnover was a heavy T$99.61bn.

Plastics, overbought by investment trust companies in previous rallies, consolidated. China Petrochemical fell T$2.60 to T$42.60.

MANILA was marked lower with leading blue chips absorbing much of the selling as investors took profits ahead of next week's listing of Petron, the oil stock.

The composite index slipped 33.44 to 3,079.39 as turnover fell to 1.2bn pesos from Wednesday's 1.91bn pesos.

BOMBAY was lower on profit-taking after Wednesday's record close and the BSE 30-share index closed down 45.38 at 4,542.78.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY AUGUST 31 1994								TUESDAY AUGUST 30 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (68)	180.62	0.4	174.47	114.50	148.37	161.54	0.2	3.41	180.13	174.18	113.48	148.01	161.19	189.15	139.24	148.32
Austria (17)	193.64	0.5	186.83	122.62	158.89	158.82	0.5	1.01	192.70	186.33	121.40	158.34	158.01	195.41	164.64	172.70
Belgium (37)	174.79	0.2	168.65	110.68	143.42	140.06	0.2	3.95	174.49	168.72	109.93	143.37	139.72	178.76	143.62	145.70
Canada (104)	135.44	0.2	130.68	85.76	111.13	134.52	0.5	2.52	135.18	130.71	85.16	111.08	133.89	145.31	120.54	128.09
Denmark (33)	251.55	−0.4	242.72	159.29	206.41	212.94	−0.6	1.39	252.52	244.17	159.09	207.49	214.14	275.79	221.98	221.98
Finland (24)	176.35	1.4	170.15	111.67	144.70	188.81	1.5	0.74	173.90	168.15	109.55	142.89	186.07	178.35	104.28	109.34
France (97)	177.19	0.5	170.97	112.20	145.39	150.14	0.4	2.93	176.24	170.41	111.03	144.81	149.54	185.37	159.34	169.17
Germany (58)	148.20	0.3	143.00	93.85	121.61	121.61	0.2	1.89	147.73	142.85	93.07	121.39	121.39	148.20	124.39	125.75
Hong Kong (56)	404.43	2.5	390.22	256.09	331.86	401.26	2.5	3.05	394.39	381.36	248.47	324.07	391.31	508.56	282.08	297.27
Ireland (14)	210.98	1.4	203.57	133.60	173.12	196.09	1.0	3.23	208.09	201.21	131.10	170.99	194.19	210.98	161.54	169.49
Italy (59)	84.03	1.0	81.08	53.21	68.95	99.13	0.2	1.57	83.22	80.47	52.43	68.38	98.93	97.78	57.88	77.87
Japan (469)	163.62	−0.3	157.87	103.61	134.26	103.61	0.2	0.74	164.06	158.63	103.35	134.81	103.35	170.10	124.54	160.82
Malaysia (97)	547.99	−0.3	528.75	347.00	449.66	540.08	0.0	1.53	549.56	531.40	346.23	451.58	540.08	621.63	387.74	387.74
Mexico (18)	2277.73	−1.0	2197.70	1442.30	1868.98	8453.51	−0.6	1.58	2300.48	2224.44	1449.30	1890.27	8500.25	2647.06	1615.11	1734.17
Netherland (27)	215.72	0.0	208.14	136.60	177.01	174.40	0.0	3.29	215.70	208.57	135.89	177.24	174.41	217.02	180.25	184.66
New Zealand (14)	73.52	1.1	70.94	46.56	60.33	64.84	1.0	3.69	72.74	70.34	45.83	59.77	64.19	77.59	59.22	61.07
Norway (23)	207.67	−0.4	200.37	131.50	170.40	195.10	−0.3	1.69	208.48	201.59	131.34	171.30	195.74	211.74	165.62	173.58
Singapore (44)	363.75	0.7	350.98	230.34	298.48	251.44	0.7	1.88	361.33	349.38	227.64	296.90	249.71	378.92	285.31	285.49
South Africa (58)	303.17	0.7	292.52	191.97	248.76	298.19	−0.3	2.11	301.21	291.25	189.76	247.50	299.22	305.44	175.93	194.63
Spain (42)	143.36	−0.2	138.32	90.78	117.63	141.98	−0.5	4.08	143.71	138.96	90.53	118.08	142.65	155.79	128.88	139.78
Sweden (36)	221.33	0.3	213.55	140.15	181.61	253.17	0.2	1.57	220.63	213.34	139.00	181.29	252.65	231.35	175.83	183.77
Switzerland (47)	162.84	0.5	157.12	103.11	133.62	134.27	0.3	1.81	161.97	156.61	102.04	133.08	133.91	176.56	135.48	135.48
United Kingdom (204)	203.78	0.3	196.62	129.04	167.21	196.62	0.1	3.86	203.23	196.51	128.03	166.99	196.51	214.96	181.11	187.79
USA (517)	194.07	−0.1	187.26	122.89	159.25	194.07	−0.1	2.78	194.32	187.90	122.42	159.67	194.32	198.04	178.95	189.40
EUROPE (718)	175.83	0.3	169.46	111.21	144.11	158.98	0.1	2.93	175.02	169.24	110.26	143.81	158.75	178.58	153.98	157.03
Nordic (116)	216.67	0.3	209.25	137.32	177.95	211.78	0.2	1.40	216.22	209.07	136.22	177.67	211.33	222.03	173.19	174.74
Pacific Basin (748)	173.43	−0.1	167.34	109.82	142.31	114.62	0.4	1.06	173.52	167.79	109.32	142.59	114.19	178.98	134.79	164.77
Euro-Pacific (1466)	174.23	0.1	168.11	110.33	142.96	132.23	0.3	1.85	174.03	168.28	109.64	143.00	131.86	175.05	143.68	161.47
North America (621)	190.44	−0.1	183.74	120.59	156.26	189.97	−0.1	2.77	190.65	184.35	120.11	156.66	190.17	192.73	175.67	185.60
Europe Ex. UK (514)	156.76	0.4	151.25	99.26	128.62	136.94	0.2	2.37	156.15	150.99	98.37	128.30	136.66	158.12	134.97	137.50
Pacific Ex. Japan (279)	268.58	1.1	259.12	170.06	220.37	238.82	1.1	2.71	265.66	256.88	167.36	218.29	236.21	296.21	200.13	203.93
World Ex. US (1647)	175.79	0.1	169.61	111.31	144.24	135.97	0.3	1.87	175.59	169.78	110.62	144.28	135.61	178.37	145.58	161.65
World Ex. UK (1960)	178.57	0.0	172.30	113.08	146.53	149.81	0.1	2.01	178.57	172.66	112.50	146.73	149.62	178.57	155.96	168.14
World Ex. So. Af. (2106)	180.03	0.0	173.71	114.00	147.72	152.93	0.1	2.19	180.00	174.04	113.40	147.90	152.73	180.03	158.54	168.84
World Ex. Japan (1695)	192.00	0.1	185.26	121.58	157.55	183.81	0.1	2.80	191.71	185.37	120.78	157.53	183.47	195.20	174.04	176.79
The World Index (2164)	180.80	0.0	174.45	114.49	148.35	154.00	0.1	2.19	180.75	174.77	113.87	148.52	153.61	180.80	158.85	169.89

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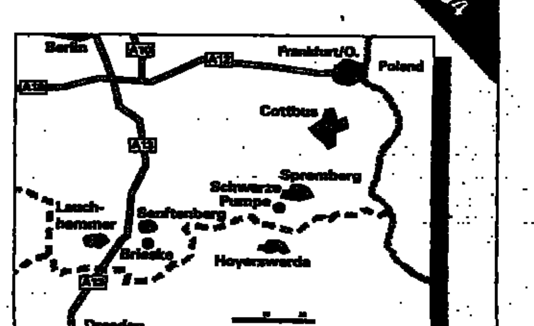
Latest prices were unavailable for this edition. Malaysian market closed 31/8/94.

Treuhandanstalt

Announcement of requests to tender for the OPEN CAST MINING RECONSTRUCTION COMPANIES in the Lausitz mining region

Deadline: 13. October 1994

Associated companies of the Treuhandanstalt are selling 100 % of the business interests in the four brown coal reconstruction companies listed below, all of which are located between Cottbus and Dresden. The activities of the reconstruction companies include the dismantling of industrial plants and the recultivation of open cast mining sites in the Lausitz area. The reconstruction of open cast mines in eastern Germany is being carried out within the framework of publicly financed contracts. For the years 1995 to 1997, a yearly contract sum of DM 1,5 billion has been made available for the reconstruction of the sites in the former GDR. These reconstruction contracts have so far been allocated according to a cost compensation procedure. In the future it is intended to put these contracts out to tender in accordance with VOB/VOL (German contract procedure regulations). The large majority of employees in these companies have employment contracts for the duration of the projects for which they have been employed. This is in accordance with § 249 h AFG (German employment regulation). The following companies are to be sold:



Company for the Recultivation of Mining Sites, Environmental Technologies and Landscaping, Ltd. (BUL)
Turnover 1993: DM 320 million
To be demerged on 1. October 1994 into:

BS-01 "BUL-Sachsen-"
Location: D-02977 Hoyerswerda
Range of services: The clearing and dismantling of industrial sites and the recultivation of open cast mines
Employees as at 1. October 1994 (planned): 3.300
Estimated turnover 1993: DM 134 Mio.
Estimated turnover for the 6 months to 30. June 1994: DM 110 Mio.

BS-02 "BUL-Brandenburg-"
Location: D-01968 Brieske
Range of services: The clearing and dismantling of industrial sites and the recultivation of open cast mines
Employees as at 1. October 1994 (planned): 3.600
Estimated turnover 1993: DM 186 Mio.
Estimated turnover for the 6 months to 30. June 1994: DM 170 Mio.

BS-03 Lauchhammer Reconstruction Company, Ltd. (SGL)
Location: D-01979 Lauchhammer
Start of business activities: 1. January 1993
Range of services: The clearing and dismantling of industrial sites and the recultivation of open cast mines
Employees as at 30. June 1994: 1.390
Turnover 1993: DM 52 Mio.
Turnover for the 6 months to 30. June 1994: DM 40 Mio.

BS-04 Schwarze Pumpe Reconstruction Company, Ltd. (SSP)
Location: D-03139 Schwarze Pumpe
Start of business activities: 1. January 1993
Range of services: The clearing and dismantling of industrial sites and the recultivation of open cast mines
Employees as at 30. June 1994: 1.156
Turnover 1993: DM 53 Mio.
Turnover for the 6 months to 30. June 1994: DM 33 Mio.

Extensive sales memoranda with binding bidding regulations can be obtained from KPMG Deutsche Treuhand-Gesellschaft by sending a company profile along with a cheque for DM 100,- (per memorandum) payable to the Treuhandanstalt. Additional sources of information will be offered in the sales memorandum.

KPMG Deutsche Treuhand-Gesellschaft
Corporate Finance Group
Contact persons: Mr. T. Ehren, Mr. A. Müller, Ms. B. Stark
Kurfürstendamm 207/208, D-10719 Berlin
Telephone: (49) 30-886 12-140
Fax (49) 30-886 12-823

Residential Property Securities No. 1 PLC

£200,000,000

Mortgage Backed Floating Rate Notes 2018

The rate of interest for the three month period 31st August, 1994 to 30th November, 1994 has been fixed at 5.9125 per cent. per annum. Coupon No. 26 will therefore be payable on 30th November, 1994 at £1,474.08 per coupon.

Aggregate interest charging balances of Mortgages redeemed during the previous Interest Period: £3,612,418.18

Aggregate interest charging balances of Mortgages redeemed as at 31st August, 1994: £230,211,137.70

The aggregate principal amount of Notes outstanding as at 31st August, 1994: £80,000,000

S.G.Warburg & Co. Ltd.
Agent Bank

3i International B.V.
(Formerly known as Investors in Industry International B.V.)

£125,000,000
GUARANTEED
FLOATING RATE NOTES 1994

FOR THE THREE MONTH PERIOD
31ST AUGUST 1994 TO 30TH NOVEMBER 1994

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 5 ¹¹/₁₆ per cent. per annum and that the interest payable on the relevant interest payment date, 30th November, 1994 against Coupon No. 28 will be £141.80 from Notes of £10,000 nominal and £14.18 from Notes of £1,000 nominal.

S.G.WARBURG & CO. LTD.
(Agent Bank)

FINANCIAL TIMES SURVEY

AEROSPACE

Friday, September 2 1994

Defence: cold comfort for industry after the cold war
Page 2

Airlines: slow flight back into profit
Page 4

Boeing's new 777 widebody airliner will enter service next year and will challenge the Airbus A340. Airbus and Boeing are battling for leadership in the growing widebody aircraft market

Manufacturers prepare for take-off

Collaboration, partnerships and joint ventures have all become the rule in the civil sector, writes **Paul Betts**, Aerospace Correspondent

The mood two years ago at the Farnborough Air Show was one of profound gloom. The aerospace industry was in the midst of its worst post-war cyclical downturn hit by the combined and prolonged effects of the slump in civil aviation and cuts in defence spending following the end of the cold war.

Senior officials of leading aerospace companies were trying to put on a brave face inside their corporate chalets at the show. "I'll offer a case of the best champagne to the first person who walks in with a real order," said one executive of a large European aircraft manufacturing company.

Next week, as the world aerospace industry gathers again en masse at Farnborough, the atmosphere is likely to be much improved. Not that the industry is finally out of the woods, but at last it is seeing some light on the other side of the dark valley.

During the past six months, there have been tangible signs of recovery in the airline industry. After four years of record losses, world airlines expect to return to profit this year as passenger and cargo traffic continues to pick up strongly. In the first half of the year, the 224 airline members of the International Air Transport Association (IATA) saw their overall traffic grow by 9.3 per cent compared with 7.2 per cent for the whole of last year.

Although this improvement has yet to translate into a new sustained wave of orders for aircraft manufacturers from more financially stable airline customers, the market has begun to stir. "Deferrals and cancellations of orders are now slowing down," said a senior official of the European Airbus consortium. "Last year they were the rule: today they are becoming the exception."

Singapore Airlines, one of the most profitable carriers, sent a strong signal to the market in June when it placed one of the biggest new aircraft orders on record for 52 widebody airliners worth $10.3bn. The airline said the deal reflected its confidence in the long-term health of the aviation industry.

This was in sharp contrast to what its chairman wrote in June 1993 in his annual statement when he noted that "aviation analysts surveying the carnage in the industry are sunk in despair". In his annual statement this year, he wrote:"Analysts may be inclined to infer that the downward slide in the industry remains intact: their melancholy may be misplaced."

This cautious revival of optimism has also followed two years of a continuing shake-up in the civil and defence sides of the business. Defence contractors have had to adapt to what appears to be a lasting reduction in government military budgets forcing them to accelerate the trend towards greater consolidation and rationalisation in the industry.

The US has taken the lead with a significant wave of disposals of their defence activities by some large industrial conglomerates to other groups that have decided to increase their presence in a shrinking market. European competitors have been slower to adapt.

But, in the past two years, there has been a growing trend of transnational mergers and consolidations in Europe. These include negotiations between British Aerospace and Matra of France to merge their missiles activities; the planned acquisition by a joint venture between Matra and the UK General Electric Company of BAe's space systems division; advanced negotiations between Aérospatiale of France and Deutsche Aerospace to combine their missiles and space operations in joint companies, similar to the merger of their helicopter activities into Eurocopter.

Collaboration, partnerships and joint ventures have all become the rule of the game in the civil sector reflecting the global nature of the aerospace market as well as the rising costs of developing new products and technologies and the increasingly long investment pay-back lead times. All aerospace manufacturers from airframe producers to aero engine makers and components suppliers now agree that co-operation is the only way forward.

The regional jet and commuter turbopropeller market seems set for significant consolidation in the coming year as manufacturers desperately seek to rationalise a sector where too many products are chasing too few orders. After failing in its efforts to merge its loss-making regional jet activities with Taiwan Aerospace, BAe is now in talks with the Dutch manufacturer Fokker which was taken over last year by Deutsche Aerospace. It is also in discussions with Aérospatiale to create a joint venture in the turboprop sector.

But even in the bigger end of the airliner market, the three leading manufacturers – Boeing and McDonnell Douglas of the US and the European Airbus consortium – are seeking risk-sharing partners to collaborate on the development of new programmes. Boeing and Airbus have also been discussing during the past two years joint collaboration on a future very large aircraft with 600-800 seats.

However, these talks have been marred by suspicion with each side worried that the other is seeking to establish a lead in the future development of a super jumbo airliner. As a result, both Boeing and Airbus have continued to pursue separate studies to develop on their own a very large transport which they believe the market will need by the beginning of the next century.

Continuing trade frictions on government direct and indirect supports for civil aircraft programmes have not helped collaboration efforts between Boeing and the Airbus partner companies. Although the trade dispute has abated following the 1992 agreement between the US and the European Union on aircraft subsidies, both sides are still anxious to secure new commitments on this controversial issue. The US wants even tougher restrictions on direct subsidies to Airbus, while Europe is insisting on stricter controls on indirect government support from Washington to its aerospace industry.

All three leading aircraft manufacturers are continuing to forecast strong demand for new aircraft over the next 20 years. Boeing, the world's biggest manufacturer, expects $980bn worth of new airliners to be sold in this period to meet the growth in air travel and the need to replace older jets.

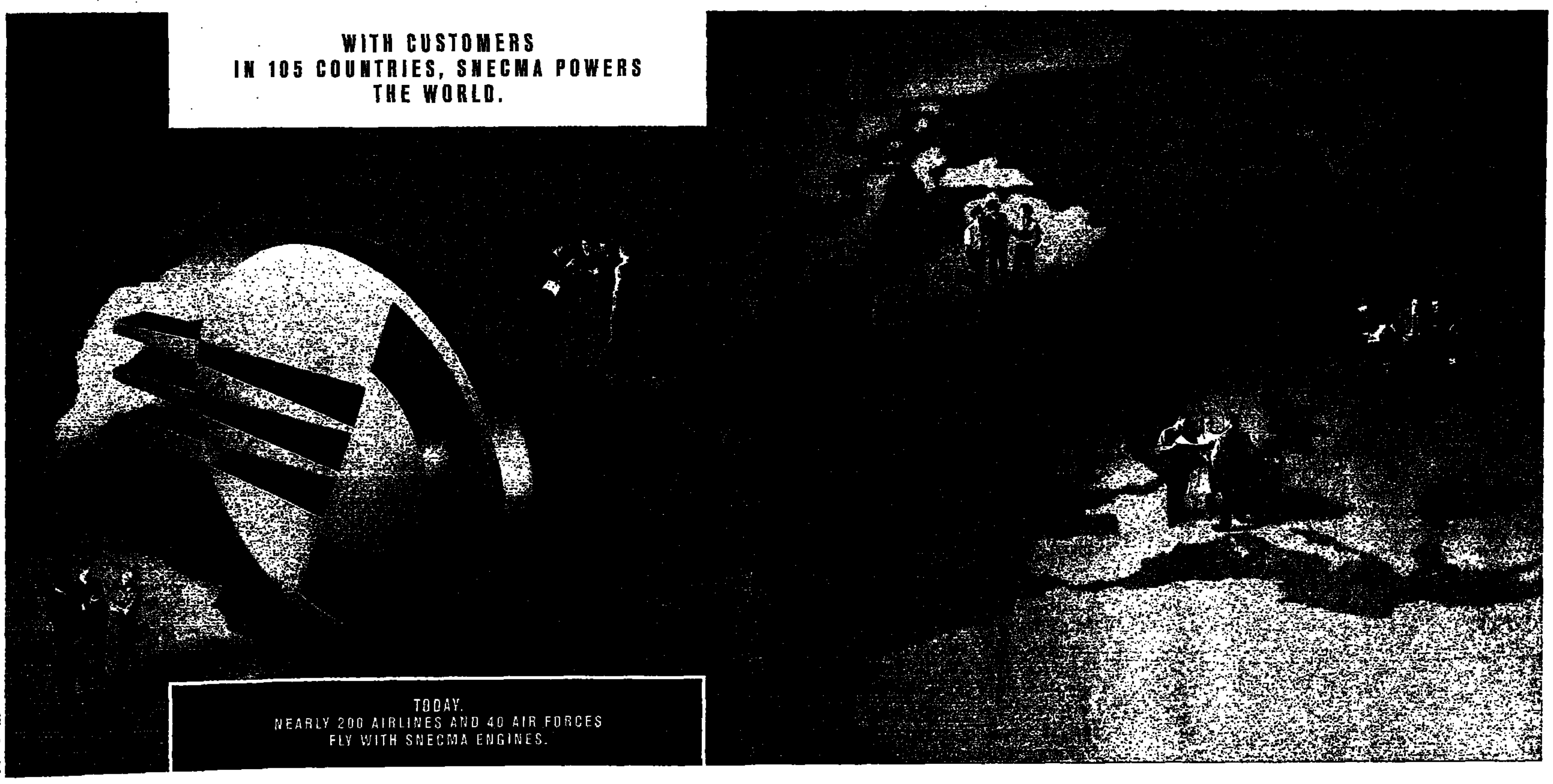
For the manufacturers, the biggest prize in the short to medium term remains the Asia-Pacific market which has continued to grow much faster than other regions with strong demand not only for civil aircraft but also for military equipment. The Chinese civil aviation market in particular has been growing at breakneck speed. In contrast, the industry's earlier hopes of seeing the former Soviet Union emerge as a significant new market opportunity for western manufacturers have so far failed to materialise.

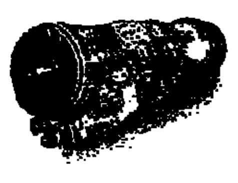
But the airline industry in general is in no hurry right now to start ordering new aircraft with the same frenzy as it did in the late 1980s. Airlines are still struggling to restore their balance sheets, badly dented by several consecutive years of losses and fare wars that have undermined their passenger fare yields. In the face of what are likely to be lasting pressures on yields, airlines have sought to improve their financial performance by extensive cost-cutting to improve overall productivity.

One of the most interesting recent trends in the airline industry's cost-cutting drive has been the growth in employee ownership in airlines. The US has taken the lead and already employees own 26 per cent of Northwest Airlines, 45 per cent of Trans World Airlines and 55 per cent of United Airlines. Negotiations are taking place between management and employees at USAir over restructuring proposals also involving an exchange of equity to employees for labour concessions. This trend now seems set to spread to other countries. Already British Airways pilots are interested in increasing their stake in their airline.

Because airlines are preoccupied with holding down costs, manufacturers have had to shift their traditional emphasis from pure product research and development to improving their manufacturing processes. This will enable them to produce airliners more cost efficiently thus ensuring a return on investment from airline customers purchasing aircraft with lower operating and acquisition costs. "The issue today is not so much what you build but how you build it," explained an Airbus executive.

In this survey





Snecma is one of the world's leading aircraft engine manufacturers, with customers throughout the five continents. The CFM56 family - fruit of our long-standing collaboration with General Electric - is the benchmark in commercial aviation. And the M88 powerplant for the Rafale multirole fighter pushes the military performance envelope further than ever before. We've achieved this success thanks to unrivalled expertise in engine technologies. And we go further every day by listening to our customers and responding to their needs, thanks to ambitious R&D programs. Working from these solid foundations, we continue to forge new alliances and seek new solutions that will power the aerospace industry well into the future

COME AND VISIT US
AT FARNBOROUGH'94
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HALL 1-C2A

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POWER ALOFT

Paul Betts says the worst may be over for the beleaguered commercial aircraft industry

Preparing for tomorrow today

Spacious atmosphere: the A340 offers first-class passengers genuine widebody comfort

Test flight: Boeing pilots familiarising themselves with the 777 electronics in a specially-equipped laboratory

Some signs have finally emerged that the worst is possibly over for the beleaguered commercial aircraft industry.

Singapore Airlines this summer placed one of the world's biggest aircraft orders for 52 US Boeing and European Airbus widebody airliners worth $10.3bn. Dr Cheong Choong Kong, the airline's managing director, described it as "an expression of faith in the long-term health of the aviation industry". A few months earlier, Saudi Arabia also announced a jumbo order for about $6bn worth of Boeing and McDonnell Douglas airliners.

Although these large deals, once commonplace in the late 1980s before the industry was plunged into its worst recession during the last four years, are still the exception rather than the rule, all three main commercial aircraft manufacturers – Boeing, Airbus and McDonnell Douglas – are beginning to see some light at the end of the tunnel.

"Last year we all sufferred big order cancellations and deferrals from airlines. At least this year cancellations and deferrals have petered out," says Jean Pierson, the Airbus chief executive.

"The airline industry has had a hell of a time but I expect the airline market to bottom out," says John McDonnell, chairman of McDonnell Douglas, the most vulnerable of the three big manufacturers to the industry's difficulties. "I do see signs that we are coming out of the depression. I've been through three cycles. People have speculated that we would go out of the commercial aircraft business. It hasn't happened yet and it won't happen in this cycle," he adds.

And Boeing, the world's biggest manufacturer of commercial jets, is still forecasting demand for new airliners worth $980bn in the next 20 years to meet the growth in air travel and the need to replace older jets. In its latest civil aircraft market outlook, Boeing says that $731bn worth of new aircraft will be need to accommodate future air traffic growth and $249bn to replace older aircraft.

But the four-year long recession has left deep scars and forced aircraft manufacturers to adapt rapidly to a fundamental structural change in the market. Air traffic, a traditional barometer of economic activity, is now recovering but the passenger yields of airlines continue to remain under pressure because of low fares. Many airlines as a result continue to be burdened by financial losses and debts significantly reducing their ability to acquire new aircraft.

"It is becoming more and more evident that revenue, rather than traffic, is becoming the key to airline profitability," says Adam Brown, head of strategic planning at Airbus. Like other industry experts, Mr Brown believes low fares are here to stay and airlines will have to rely increasingly for their profits on cost reductions and operational efficiencies. In turn, they will seek to fill their fleets with aircraft with both lower operating and acquisition costs.

These financial pressures coupled with the industry's increasing concentration has led to a further intensification of competition in the commercial aircraft market. As Boeing puts it: "There are only 600 airlines in the world. Only 125 of these buy new airplanes. And the 20 largest airlines buy 60 per cent of all new commercial airplanes. In such a concentrated market, you can't afford to miss a single strategic sale."

To respond to these new challenges, aircraft manufacturing has been forced to evolve from a business driven purely by product, research and development to one where the manufacturing process will make the difference between one airframe builder and its rivals. "It is no longer so much what you build but how you build that will give you the edge over the competition," explains a senior Airbus executive.

"We are all having to adapt to this new competitive environment," says Claude Terrazzoni, head of the commercial aircraft division of Aérospatiale, the French partner in the Airbus consortium. "Boeing is now cutting its production costs by 25 per cent: either they want to kill us because they think Airbus can't match such cuts, or they are adapting to the structural change in the airline industry with low fares; or they are trying to do both," he adds.

At the roll-out this spring of its latest airliner – the 400-seat 777 twin-engine widebody – Ron Woodard, the head of the US company's commercial aircraft operations, said Boeing was committed to drive down costs and the time to build an aircraft "to make sure we remain the world's most competitive manufacturer of commercial jets".

Boeing has already reduced the order-to-delivery time of its widebody aircraft such as the 747 and the 767 from as high as 18 months a few years ago to around 10.5 months and wants to bring it down even further to eight months. It eventually hopes to achieve the same target for the 777, the latest member of its aircraft family.

Boeing has already reduced the production cycle time for its narrowbody aircraft, including the 737 and the 757, to nine months and is planning to bring it down to six months by 1996.

The way Boeing has developed the 777 is another example of how manufacturers have adapted their operations to the changes that have taken place in the civil aircraft business. Boeing describes the 777 as a "market-driven" airliner. In the past, the manufacturer felt it knew what was best for its airline customers. But with the 777, Boeing has encouraged airlines, suppliers and sub-contractors to participate actively in the design and planning of the new airliner.

Manufacturers are beginning to see light at the end of the tunnel

"Not that we did not listen to our customers in the past, but the biggest lesson we learnt was that we often listened to them late in the programme," explains a senior Boeing executive. At all cost, Boeing wanted to avoid the mistakes made five years ago on the development of the 747-400, the newest version of its 747 jumbo. After failing to listen properly to its customers, Boeing was forced to delay delivery for several months to initial customers because of teething problems and design changes demanded by airlines. This time, Boeing wanted to make sure it had what it calls a "service ready" airliner from the first 777 delivery.

The change in Boeing's manufacturing approach reflects two important evolutions in the market. The first was the need to adapt to the new circumstances facing airlines hit by the prolonged slump in civil aviation. The second, and perhaps even more important factor, was the emergence of Airbus as Boeing's principal long-term challenger.

The European consortium, which has steadily built market share during the past 20 years by launching advanced new aircraft programmes and developing a broad family of airliners, has been making serious inroads into some of Boeing's traditional customers including in its domestic US market.

With nearly 30 per cent of the world market, Airbus has now overtaken McDonnell Douglas in the industry's number two slot behind Boeing. The US company's Douglas commercial aircraft division has been given a big boost by Saudi Arabia's decision to award a large slice of its new $6bn order to the Long Beach, California, group. But Douglas continues to be handicapped by its limited product range focused on two niche markets with its MD11 three-engine widebody airliner and its MD-80, MD-90 and the planned MD-95 narrowbody twin-engine airliners all derived from the original DC-9.

Douglas has not abandoned the idea of forging an international alliance with foreign partners acquiring up to 49 per cent of the Long Beach concern. A similar scheme with Taiwan collapsed two years ago. But in the absence of establishing a strong international alliance, many in the industry expect Douglas to find it increasingly hard to compete with just two product lines. "This is simply not a niche business. You need a broad family of aircraft to compete," explains one of Douglas's main rivals.

In contrast, Airbus has embraced the "family concept" with its A320, A319 and A321 narrowbody airliners, its A300 and A310 widebodies, and its latest widebodies including the A330 twin-engine airliner and its sister aircraft, the four-engine very long range A340.

From the beginning, Airbus has sought to leap-frog Boeing with its products by introducing new technological concepts to commercial jets including fly-by-wire electronic controls. And with the A330 and A340 and plans to develop the A3XX, a 500 to 600-seater jumbo, Airbus has also increasingly challenged Boeing's dominance of the large aircraft market.

The reaction at Boeing has been violent. As Mr Woodard put it in Boeing's staff magazine: "We decided to prepare for the future today, while we're number one because number two is unthinkable." Boeing's cost-cutting drive has involved 28,000 job reductions in 1993 and 1994. The US company has stepped up the widespread application of new computer and automated manufacturing techniques. It has introduced new organisational structures to improve internal working relations and practices.

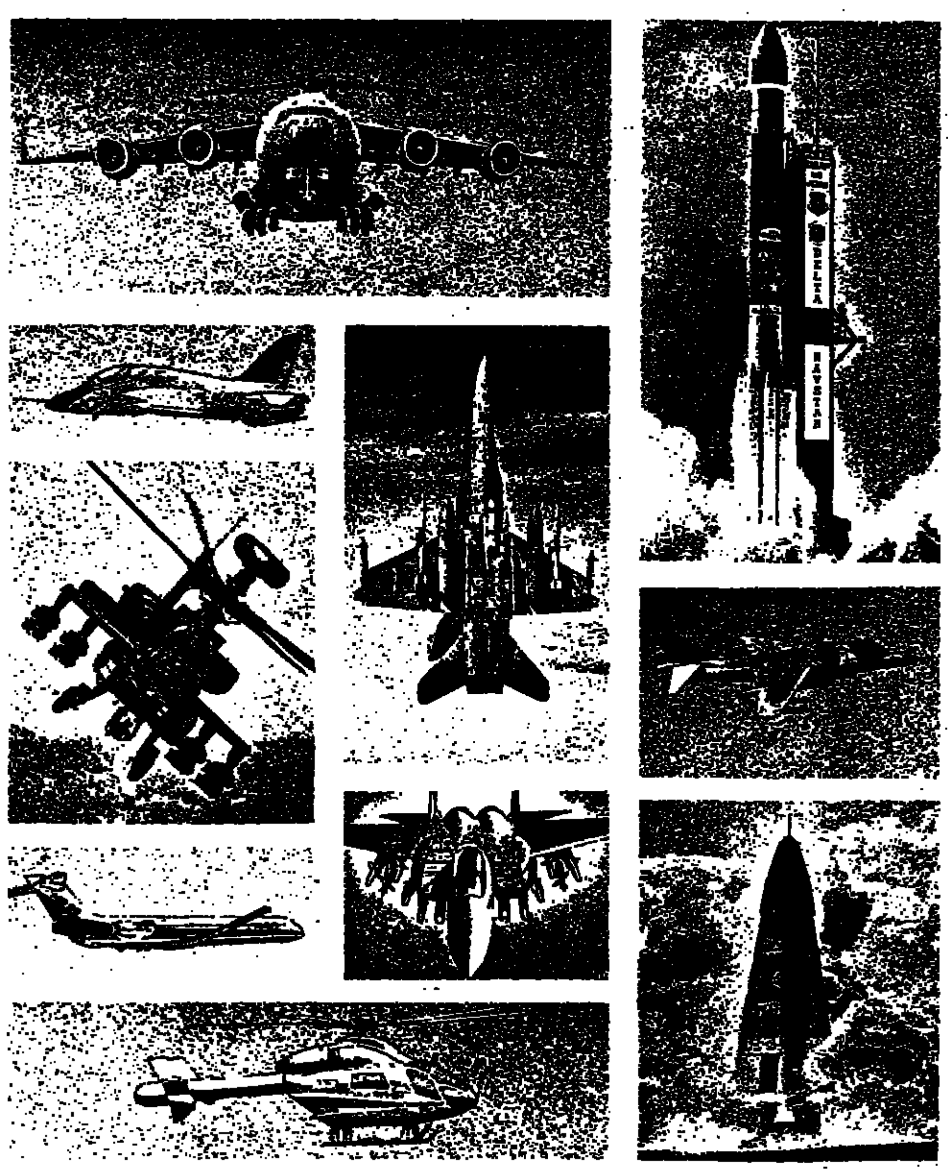
All this has now put pressure on Airbus to accelerate its own internal change to respond to the new competitive challenge from Boeing. Simply put, the commercial success of Airbus, whose sales topped $9bn last year and are expected to reach the same level this year, is in danger of being undermined by the group's own complex corporate structure and complex work-sharing production system based in its four partner countries – France, Germany, the UK and Spain.

But all four Airbus partners now recognise that the challenge for Airbus is to transform what was initially conceived as a job and wealth creation consortium to compete against the dominance of the US manufacturers into an independent company, mature enough to rationalise and restructure, take hard political and social decisions, and stand on its own two corporate feet.

Airbus says it is confident it can meet Boeing's challenge. It, too, has cut back on excessive staff with its four partners all launching extensive restructuring. It is attempting to maximise the big investments made during the past 20 years in automation and computer-aided manufacturing. It has also sought to simplify and streamline the consortium's complicated four-nation manufacturing and assembly processes.

Mr Pierson, the Airbus chief executive, has set production targets for Airbus airliners similar to those set by its rival Boeing. "For narrowbody aircraft we are also aiming at an order-to-delivery target of six months in 1996. Today it is 12 months, next year it will go down to nine," he says. For widebody aircraft like the A300, A310, A330 and A340, Airbus has already reduced production cycle times from 15 months to 12.5 months and plans to go down to nine months by 1996.

But the task remains a daunting one for Airbus. The European consortium has started transforming itself, but the process is a slow and politically difficult one. Unless it steps up the tempo, it will find it hard to keep up with the pace being set by Boeing. As Philip Condit, Boeing's president, has put it: "The race will go to whoever is fastest."



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Defence contractors

Cold comfort after cold war

Norman Augustine, the chairman and chief executive of Martin Marietta, has been negotiating some tough deals with the Pentagon recently. When the company agreed to acquire General Dynamics' Space Systems division in May, the Department of Defence agreed to pay for some of the rationalisation costs, and to allow Martin Marietta to keep half of the resulting savings.

Such deals are likely to become more common if the Pentagon has its way, but it does not herald a sudden outbreak of altruism in Washington. The Department of Defence thinks that if the defence industry consolidates into fewer larger manufacturers it will save money. In the case of General Dynamics Space business, for example, paying $30m in restructuring charges may save $500m on the cost of launch vehicles over the next 10 years.

If incentives from the Department of Defence are the carrots to encourage industry mergers and rationalisation, there are plenty of sticks, too. As US defence spending has been cut in the wake of the Reagan arms build-up and the end of the cold war, weapons procurement has been by far the worst hit section of the budget. Total defence expenditure is down by a third in real terms in the past decade, but weapons procurement has fallen by two-thirds. Since that is what puts bread into the mouth of defence companies, some people have gone hungry.

The industry has had to respond rapidly to this rising pressure. Since 1990, employment in the US defence industry has fallen from 1.3m to 800,000. There has also been a string of deals with companies trading businesses. Yet, so far there has been no rout, and nor has the game of musical chairs turned nasty, despite the steadily reducing number of seats.

The first to pull out were the

Continued on page 3

Paul Betts discusses the manufacture of aero engines

Quest for ever more power

The development of the most powerful commercial jet engines ever built has continued to dominate the efforts of the world's leading aero-engine manufacturers.

The stakes are huge. Between them, the big three aero-engine makers are spending around $4bn to develop these new power plants which can deliver more than 100,000lb of thrust. The Trent being developed by Rolls-Royce of the UK has already been run at 106,000lb of thrust. General Electric of the US has tested its new GE90 at an even higher rating of 110,000lb, while the other big US manufacturer, Pratt & Whitney, has also run its more powerful derivative of the PW4000 at more than 100,000lb of thrust.

When Rolls-Royce first unveiled the Trent programme at the Farnborough Air Show back in 1988, Sir Frank Whittle, the father of the jet engine, could hardly disguise his amazement at the extraordinary progress made in engine technology since the development of his first engine with only 480lb of thrust.

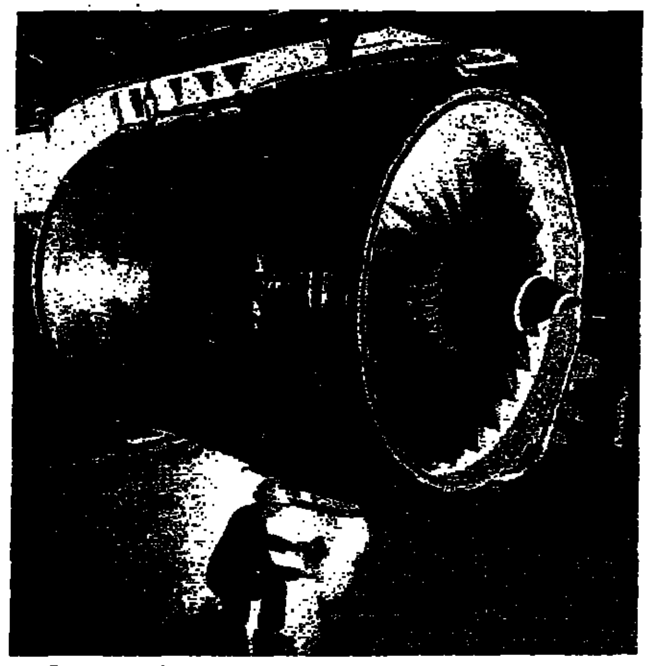
"The most powerful engine I designed had a thrust of 2500lb. I would have said something like 10,000lb was as far as we were likely to go. If we wanted more power for a particular aeroplane, we'd just have had more engines than, say, two of these enormous, powerful jobs," he said.

Throughout the history of the commercial aerospace industry, aircraft have been getting bigger and heavier, and as Russ Sparks, the GE90 programme manager notes "the heavier versions of aircraft have traditionally sold best".

This trend is showing no sign of abating. Aero-engine makers now expect that by far the largest portion of all civil aerospace business in the future – around 50 per cent by value – will be in the large, widebody aircraft sector requiring a new generation of heavy thrust engines.

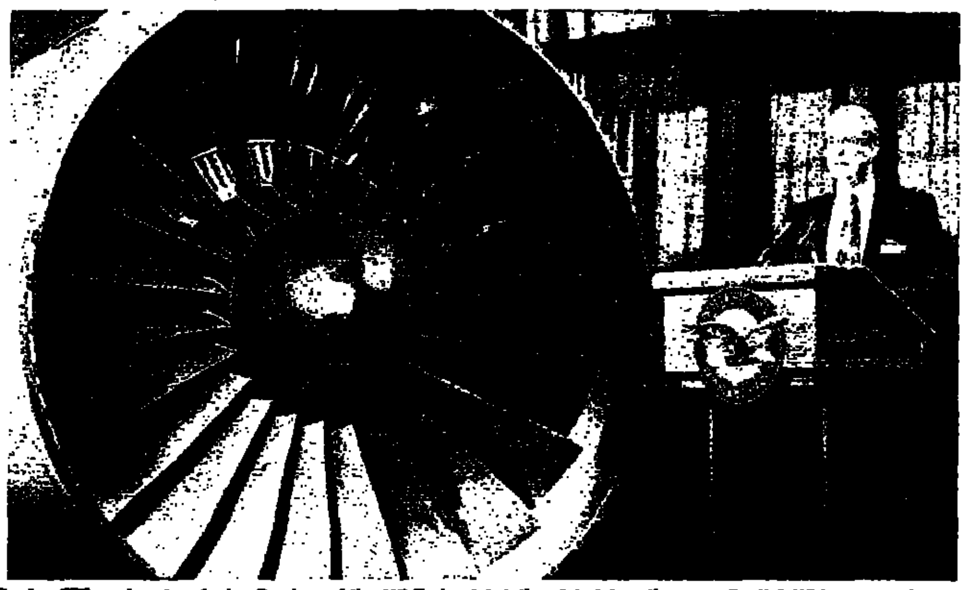
At present there is only limited market application for the new big power plants under development with the new Boeing 777 wide-body twin-engine airliner, which made its flight debut in June with Pratt & Whitney engines, the prime contender. At the same time, there is no demand at this stage for engines with thrusts of more than 100,000lb since Boeing requires thrust ratings of 76,000lb and 84,000lb for the first two versions of its 312 to 400-seat 777s.

But the engine makers are already anticipating demand for heavier versions of the aircraft as well as development of other new large airliners. All big three manufacturers are thus anxious to show airline customers that their new large commercial engine programmes can meet potential demand for bigger and heavier derivatives of the 777 as well as super jumbo 600 to 800-seat airliners under study.



Rolls-Royce Trent 800: run at 106,000lb of thrust

However, the timing of these ambitious and costly programmes could not have come at a more difficult moment. The battle to power the "big twins", as it has become popularly known, has coincided with the worst recession in the highly cyclical commercial aerospace industry coupled with the decline in military business following the reduction of government defence budgets in the wake of the end of the cold war.



Boeing 777 engine dwarfs Jay Pardee, of the US Federal Aviation Administration, at a Pratt & Whitney meeting

The industry has been caught in the classic pincers with research and development costs running very high at a time when cash flow has been inhibited by poor trading conditions, which have hit not only new engine sales but activity in spares, a traditional large source of profit for engine makers. Moreover, the decline in defence spending, which for the first time has come simultaneously with the downturn in the civil side, has had severe implications on the government funded part of company research and development budgets.

This has forced aero-engine companies to pursue sweeping restructures including heavy job cuts and plant closures. Rolls-Royce, for example, closed three plants last year and is closing three more this year to match the cost-cutting of its US rivals. The UK company has also sought to expand its activities in the industrial power business to reduce its reliance on aero-engines. However, unlike its US competitors, which are part of big diversified industrial groups, the UK company still remains heavily dependent on aerospace.

The competitive pressures and heavy costs of developing new engines have also stepped up the pace of consolidation and collaboration in the industry. All the three big aero-engine makers have forged partnerships with other international companies in the heavy thrust engine market.

Risk and revenue sharing partners from Japan, Germany, France, Spain, South Africa as well as the UK have taken almost 20 per cent of Rolls-Royce's Trent programme. The GE90 has reinforced the collaboration between the US manufacturer and Snecma, the French state-controlled aero-engine group. Through their CFM International partnership, GE and Snecma have formed what many regard as a model of international collaboration which has enabled them to take a leading position in supplying engines for narrow-body airliners such as the Airbus A320 as well as for the new long-range four-engine A340.

Pratt & Whitney for its part has entered into a strategic partnership with MTU, the aero-engine subsidiary of Deutsche Aerospace, and is the principal partner with Rolls-Royce in the International Aero Engine consortium which develops the V2500 engines in competition against the GE-Snecma CFM International partnership.

Collaboration is intensifying at every level of the market and not just at the top end. This has seen the successful launch of the joint aero-engine venture between Rolls-Royce and BMW, the German car group, which is developing the BR700 series of engines to power new long-range business jets as well as future regional jet aircraft. Deutsche Aerospace has now also renewed approaches to its German rival to suggest co-operation.

The industry now believes it has probably seen the worst of the current prolonged recessionary cycle with a recovery in orders starting to pick up around 1996.

Cold comfort

Continued from page 2

predominantly non-defence companies who decided to leave the field to professional soldiers. So IBM, Ford and General Electric have sold their defence interests to the likes of Loral and Martin Marietta. The other big seller has been Bill Anders, the astronaut who was chairman of General Dynamics between 1991 and 1993. He sold his F-16 fighter plant to aerospace company Lockheed, his missile business to missile specialists Hughes Aircraft, his space launch business to Martin Marietta, and his non-military aircraft business to Textron.

Other deals will follow and Dan Tellup, chairman of Lockheed, thinks that the US may end up with two combat aircraft manufacturers, two electronics giants and two missile companies. It is already down to one tank manufacturer, one submarine yard and one surface warship maker. Some systems are too expensive for even the US to afford. Strategic bombers may have come to the end of the line with the $850m-a-time B2, unless cheaper production methods are found.

Yet the larger companies, such as Lockheed, Martin Marietta, Raytheon and McDonnell Douglas, have sufficient backlogs of orders to be relaxed in the short term. "We have to be opportunistic" says Dan Tellup, "because it is never completely clear where the opportunities will arise." These companies have also become strongly cash generative as a result of the job cuts, and perhaps their biggest immediate fear is that their rising stock market values may attract cash-hungry predators.

Smaller firms with weaker finances cannot be so relaxed, however. Those whose programmes are drawing to a close, such as Northrop and Grumman, may be forced into merger to spread the pain of remaining in the game. Others will be forced out altogether.

Many US chief executives see the consolidation as a much-overdue rationalisation which only mimics the cuts in Europe over the past 25 years. This is a little ironic, since although many of the cottage industry manufacturers within Europe have been pushed together into larger national groups, they all have national markets which are in order of magnitude smaller than the US home base. When looked at from a European perspective, the European Union still has a smaller total defence market than the US and it is much more fragmented. Europe is nowhere near achieving the economies of scale which the US takes for granted.

What is perhaps worse from the European point of view, is that the situation is unlikely to change rapidly. Some cross-border deals in less sensitive technologies are being done; for example, a merger between Giat of France and Royal Ordnance of the UK is being negotiated. Yet even here national sensitivities are such that the UK is only prepared to be dependent on French munitions to the extent that France is equally dependent on the UK. Such cross-border rationalisation of the missiles business, with Matra and BAe teaming up and Aérospatiale and DASA getting together, are also under discussion. Still, progress is painfully slow.

The other great European experiment is in collaborative ventures, such as the Eurofighter. These seek to spread the cost of developing the most sophisticated systems across several countries with a sufficiently long production run to make them viable. Even here, the difficulty of co-ordinating several partners, the delays which politics can cause, the compromises and disagreements about specification and the spreading of work among the partners can mean that no-one gets the weapon they want and no-one saves any money. One national auditor of such projects doubted that any previous collaboration had actually proved cost-effective.

The EU has a smaller total defence market than the US

European governments may be prepared to tolerate the problem, since from national perspectives, the alternative of common European defence policy and procurement may be worse. Yet such inefficiency means either Europe pays more for the same level of defence than the US would, or it settles for less sophisticated equipment, or possibly both.

With the crunch to get value for money in defence spending growing, however, there will be increasing pressure to buy off-the-shelf US products rather than a tailor-made European solution. That problem is seen graphically in the present UK debate over the replacement of the RAF Hercules fleet, where a new European design is up against a proven US product. Even if the Future Large Aircraft were shown to have lower life-cycle costs than Lockheed's new C130J Hercules, the FLA group would have an uphill task persuading the UK to fund its share of development costs.

There is also a crunch in export markets. Cost is only one of the issues for purchasing governments. Traditionally, the effectiveness of weapons systems and political ties between governments have been more important. But the culture of value for money is spreading to hard-pressed governments. Unless the European arms industry starts cross-border consolidation, it may face a choice between subsidising its arms exports and leaving the field to the US.

Bernard Gray

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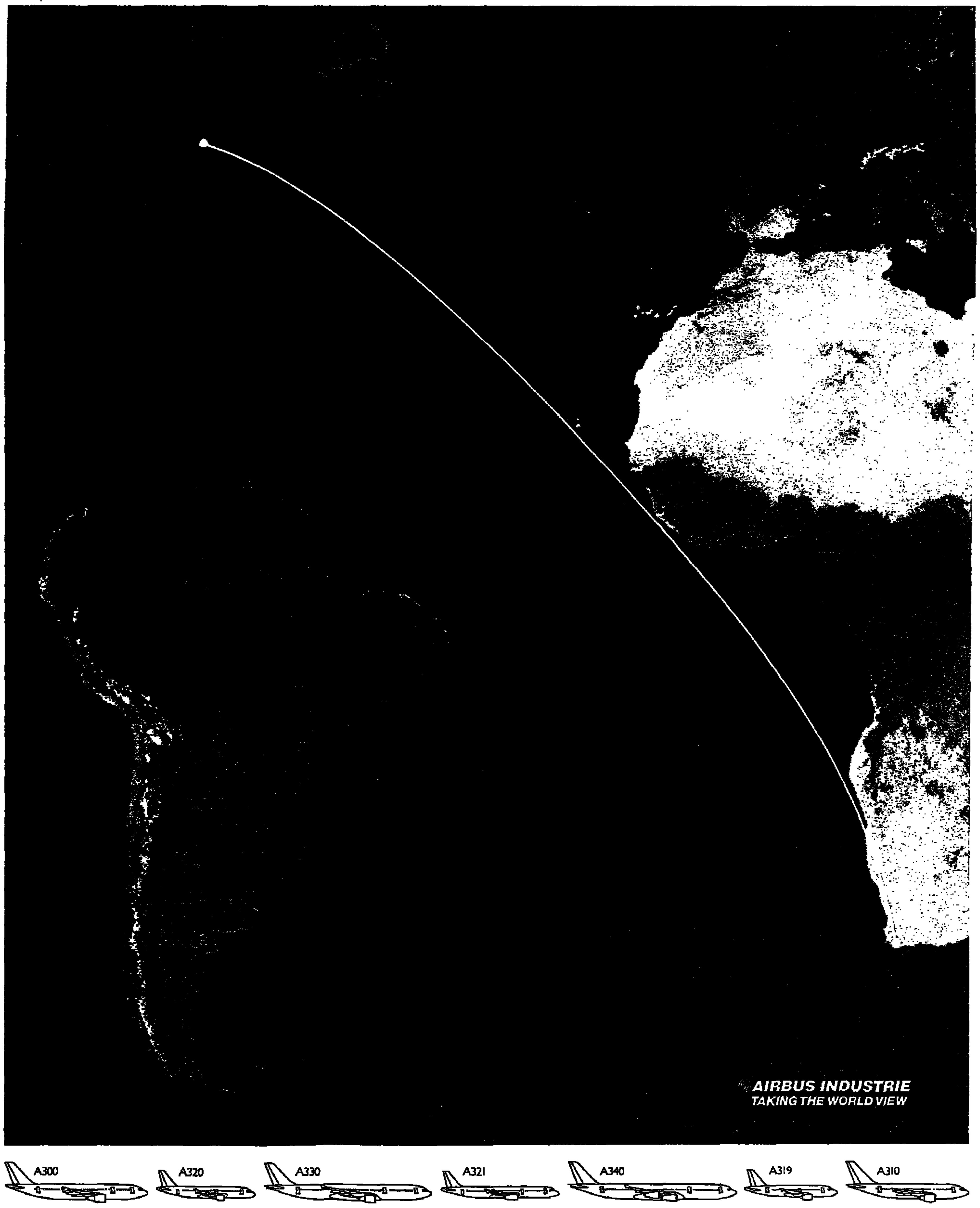
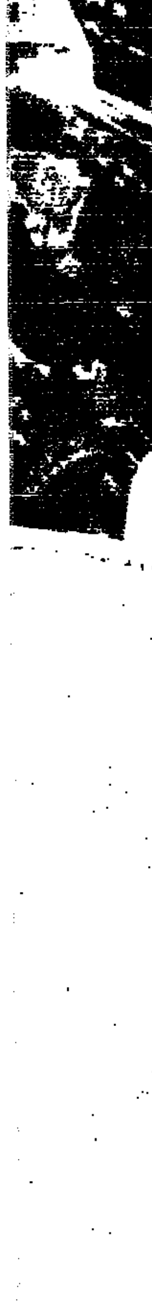




AEROSPACE 4

The pain for airlines is by no means over, writes **Paul Betts**

A slow flight back into profit

The world airline industry expects to fly back into profit this year after suffering four years of record losses totalling $15.6bn on international scheduled services alone.

But the pain is by no means over as the industry continues to adapt itself to profound structural changes caused by increasing liberalisation and deregulation and the after shocks of the worst slump in the post-war history of civil aviation.

The International Air Transport Association (IATA) is now forecasting an industry profit of around $1bn this year. "We are hopeful we have turned the corner," says Tom Murphy, senior director of the trade organisation grouping 224 airlines.

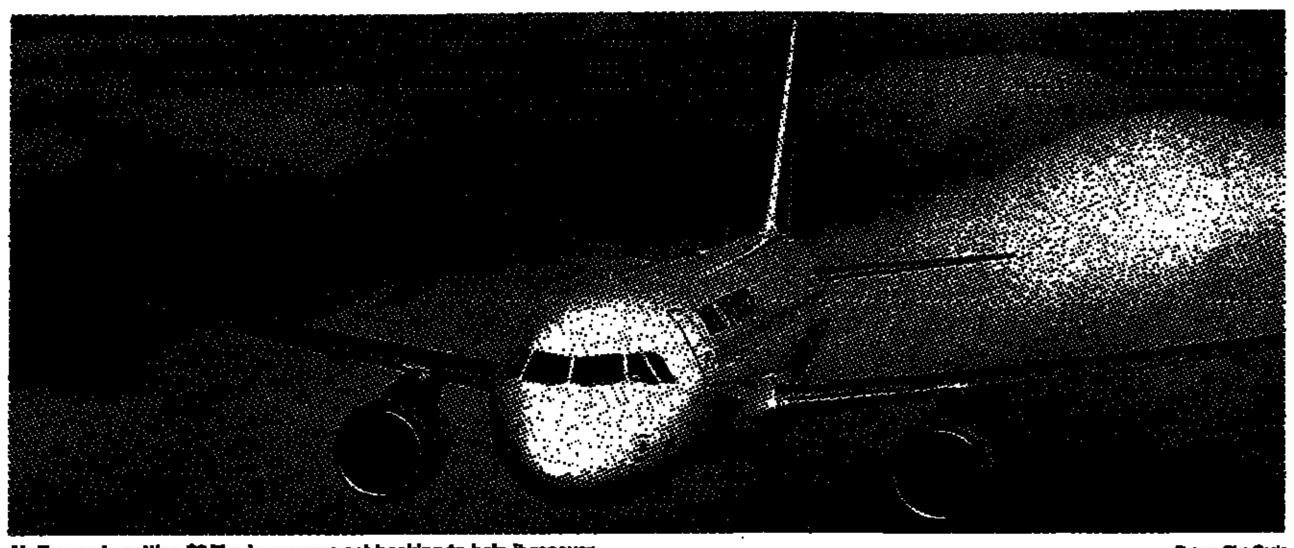
Even if $1bn is better than nothing, it is still only a tiny fraction of the industry's total annual revenues of around $110bn. What is more, the financial performance of airlines continues to show dramatic variations. A few, like British Airways and Singapore Airlines, are doing well; the majority are hovering around break-even point; and about a quarter are losing a spectacular amount of money.

Pierre Jeanniot, IATA's director-general, blames three factors for the continuing financial problems of the airline business:

■ The world economies were denied a "soft landing" from the boom of the 1980s and airlines, which had continued to order aircraft in large numbers right up to 1990, were caught with too much capacity when the recession hit and was further exacerbated by the impact of the Gulf war on air travel.

■ The huge level of aircraft orders was financed essentially by borrowing with the result that airlines now have to make an operating profit of at least 3.7 per cent of revenues just to service their debt.

■ The increase in competition in the 1980s combined with increased liberalisation in air transport policy and continuing over-capacity have had a devastating impact on real passenger yields.



Air France is getting $3.7bn in government backing to help it recover — Picture: Clive Gosh

IATA calculates that air fares have dropped by 68 per cent in constant money in the past 20 years and this trend has been accelerating. Although passenger traffic is expected to grow by an average annual rate of between 5-6 per cent during the next four years – with much higher growth in the Asia-Pacific region of around 8 per cent a year – this is unlikely to lead to any significant improvement in airline yields as has been the case in past cycles.

"In many markets, air travellers have now become accustomed to paying a particular fare level; and if fares are increased, they simply don't fly. So the airlines now have no choice but to find a way to provide a service at this fare level, rather than as in the past seeking to maximise the fare charged for providing the service," explains Adam Brown, head of strategic planning at the European Airbus aircraft manufacturing consortium.

Airlines are also facing tougher competition in many markets not only because of the impact of increasing liberalisation, but also from new rival forms of transport. In Europe, the development of a high-speed rail network and the opening of the Channel Tunnel will inevitably intensify competition on shorter routes where rail can provide a fast and more direct service between city centres.

Top 10 airlines
(scheduled passenger-kilometres performed – 1993)

Airline	Millions
United Airlines (2)	162,527
American Airlines (1)	156,302
Delta Air Lines (3)	133,346
Northwest Airlines (5)	93,549
British Airways (6)	80,086
Continental Airlines (7)	68,114
USAir (8)	56,681
Japan Airlines (9)	54,615
Lufthansa (10)	52,658
Qantas (16)	44,510

Last year's rankings in parenthesis. Source: IATA

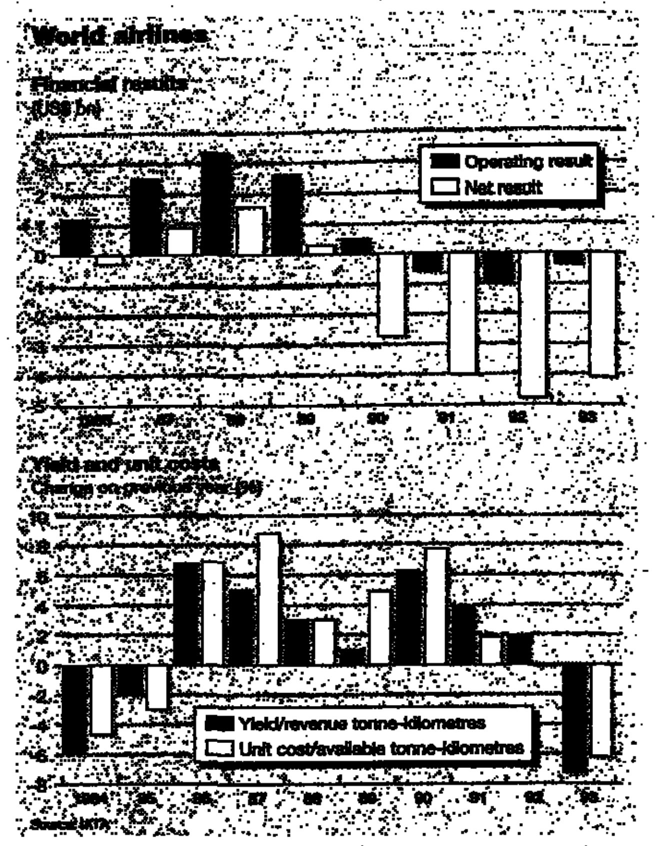
Low fares and new competitive forces will force airlines to continue pursuing cost-cutting and other productivity efforts to restore their profit margins. Considerable progress has been achieved by a number of airlines but many still have a long way to go to adapt their structures and operations to the new competitive, liberalised industry environment.

This is particularly the case for state-owned European carriers which are now facing far tougher rules from the European Commission on government financial support. The Commission wants to see the phasing out of all state aid to airlines over the next three years. It has also warned airlines they will be allowed one last package of substantial aid as long as it is linked with a large-scale restructuring and cost reduction programme to restore their competitive position.

While financially troubled European state carriers like Air France, Olympic of Greece or Alitalia, are wrestling to restructure themselves (Air France alone is getting FFr20bn [$3.7bn] in government backing to help it recover), large US airlines have also been forced to adapt to new competition from low-cost carriers in their domestic market. The response of the leading US airlines has been to seek labour concessions and launch separate new low-cost subsidiaries to compete against the new breed of domestic US carriers of which Southwest is undoubtedly the most remarkable phenomenon.

The move towards more "open skies" has also intensified the trend towards greater collaboration in an increasingly global industry. British Airways is one of the airlines to have taken the lead in developing a global network through alliances and equity partnerships including taking stakes in USAir, Qantas, the French regional carrier TAT and its new Deutsche BA airline subsidiary in Germany.

After the failed attempt last year by four medium-sized European airlines including Swissair, KLM Royal Dutch Airlines, Austrian Airlines and Scandinavian Airlines System (SAS), these European carriers have continued to seek commercial partnerships to strengthen their competitive position against the big carriers.



Many airlines have still been reluctant to take the BA route of investing in equity stakes in other carriers. Instead, they have sought to expand their international reach through marketing and commercial partnerships. This has increasingly involved the use of ticket code sharing which enables two carriers to use their respective ticketing codes to simplify computer reservations and cut costs.

With the industry's centre of gravity moving east, international airlines have also been multiplying efforts to form alliances with carriers in fast growing markets such as China or India anxious to secure western expertise to develop internationally. Singapore Airlines, for example, is planning to form a new joint airline venture in India with the country's biggest industrial group, TATA industries. In China, Singapore Airlines and BA are actively discussing possible links with Chinese carriers in a civil aviation market developing at break-neck speed with annual growth averaging 20-30 per cent in the past few years.

But the industry's problems are not only financial, although as Mr Jeanniot of IATA emphasises, "the overwhelmingly urgent issue" remains airline profitability. Some progress has been made during the past two years on improving air traffic and airport congestion, and increasing political awareness on the long-term risks of inadequate infrastructure to support the continued growth of international air travel.

Without a stepped up commitment from governments to invest in new ground and air traffic control facilities and technologies, the danger is that not only will future air travel growth be clipped but competition will continue to be distorted by preventing new industry entrants from gaining the necessary access to busy airports and airplanes.

Michael Donne examines the regional industry

Better times ahead

Over the past few years, the European regional aircraft manufacturing industry has been suffering from a severe shortfall in orders as a result of the recession which has bitten deeply into airline balance sheets.

That, in turn, has led to curtailed aircraft re-equipment programmes, resulting in reduced aircraft production rates and labour layoffs as a means of survival.

But while the market remains difficult, and highly competitive, there are signs of better times ahead. Airlines this year are expected to return to a collective profit, albeit a slim one of about $1bn world-wide, which by no means compensates for the $15.6bn losses on international scheduled services alone over the past four years.

Moreover, the long-term forecasts indicate that as the recession fades, traffic growth is likely to be resumed at an average of around 5 per cent a year through the next 10 to 20 years.

This, in turn, is likely to result in a renewed demand for regional aircraft of all types – jets ranging between about 50 and 120 seats, and turbo-propeller airliners up to about 70-80 seats.

Avro International, the regional jet airliner manufacturing subsidiary of British Aerospace, is forecasting a demand world-wide for 3,000 jets in the 65-120 seat range over the next twenty years, to 2013. Smaller jets, such as the Canadair RJ of around 50-plus seats, will also have a share of the market.

Such a market could be worth in excess of $60bn.

This forecast is generally agreed by Boeing of the US, which builds the 737 series of short-range twin-engined jets (with more than 3,000 sold to date in nearly 30 years of service) and is now planning not only a new series of 737s but also a "new small airplane", now being defined in detail.

These forecasts are based on the fact that many current trends in the air transport industry provide opportunities for the growth of the regional aircraft market.

Underneath the main medium-to-long-range trunk-line routes there is a vast network of complementary "commuter and feeder" operations linking hundreds of smaller towns and cities with each other as well as with the major "hub" airports in capital cities. These are mostly short-haul flights, ranging from about 250-300 miles.

The European Union's "Third Package" of aviation liberalisation measures, introduced on January 1, 1993, including freedom of market entry and access to new routes, is still in its comparative infancy (unlimited "cabotage" – the right to operate unfettered services in other countries than one's own – will not become effective until April 1, 1997), but it is clear that as the recession fades and traffic grows, the larger airlines operating from the main hub airports will require increasingly frequent regional services to feed them.

In turn, short-haul regional routes are increasingly being seen as a specialist operation. Says Avro: "There is already a significant move towards large airlines divesting the regional networks to affiliated carriers operating small regional jets, such as the R.J. Avroliner family, which can provide more efficient and profitable services on the shorter, thinner routes.

"At the same time, congestion at the major hubs will stimulate traffic growth at the smaller airports. Hub by-passing services will increase, and this again will lead to greater demands for regional jet aircraft.

"Older aircraft types with significantly higher maintenance costs, lower productivity, and inability to meet increasingly stringent noise regulations will be phased out of the regional routes, even allowing for some re-engining and 'hush-kitting'. This will lead to an increasing demand for new and more efficient types."

Avro says that the largest market for regional jets will continue to be North America (42 per cent), followed by Europe (21 per cent), and Asia/Pacific (15 per cent).

However, the big problem confronting all the regional jet and turbo-propeller aircraft manufacturers is that the supply of available types is already vast, and far more than the market can really absorb.

This means that the already intense competition among manufacturers will become fiercer, with some builders perhaps being forced to quit the market, which no-one really wants to see – the airlines like to have a wide range of choice in their equipment purchases.

The alternative is for a rationalisation of the manufacturing side, through new joint ventures supported by mergers or other forms of strategic alliances in the industry.

Some have already occurred – for example, the 51 per cent stake in Fokker of Holland acquired by Deutsche Aerospace (DASA) of Germany – and over the immediate future there may well be further significant realignments in the industry's overall global structure.

This past summer, Deutsche Aerospace suggested that British Aerospace, together with Aérospatiale of France and Alenia of Italy, could be offered stakes in Fokker, as a step towards forming a European regional jet manufacturing consortium, particularly targeting new projects for the future.

Such a move would safeguard the continued development of those existing companies' product lines – the Avro RJ series and the Fokker 100 and smaller Fokker 70, and the turbo-propeller ventures of BAe (through Jetstream) and of Aérospatiale and Alenia through Avions de Transport Regional (ATR). It would also seek to avoid conflict with Airbus (in which DASA, Aérospatiale and BAe are all partners), which is itself marketing vigorously its own 130-seat A-319, due to enter service in the spring of 1996.

The prime objective of such a new European consortium, were it ever to materialise, would probably be a new small 110-seat aircraft, called the Future Advanced Small Airliner (FASA), which would be designed to compete directly with Boeing's own New Small Airplane (NSA) project.

Boeing has begun detailed studies on the NSA, in co-operation with Japan Aero Industry (JAI) and China National Aero-Technology Import and Export Corporation (CATIC), with a view to an eventual joint venture that could seize especially a significant slice of the rapidly expanding Asia/Pacific regional jet aircraft market.

Also on the international front, Aérospatiale has offered to join Chinese and South Korean companies in developing a 100-seat regional jet for the Asia/Pacific market. At the same time, although earlier talks between Avro and Taiwan Aerospace on collaboration failed to get off the ground, both companies remain interested in the rapidly growing Asia Pacific market.

But because of their already strong background in the regional aircraft markets, the possibility of a significant consortium of European companies emerging with global competitive capability should be taken seriously, especially if widened to include other European aircraft manufacturers, such as CASA of Spain and SAAB of Sweden.

Linked in such a way, the European industry could prove a powerful competitor for Boeing. The Europeans already have immense experience – collectively they meet virtually every regional airline need from small 10-seat twin turbo-prop airliners up to 100-plus-seat twin-jet aircraft.

There is no lack of innovation, and many of the companies involved are looking ahead with new ideas for either product improvements or entirely new aircraft models.

The problem in setting up any new consortium would be determining not just the financial contributions, but also to what extent each partner would be prepared to sacrifice cherished individual concepts in favour of united ventures.

Many in the European aerospace industry believe that putting together such a consortium is the only way ahead, and the abandonment of some concepts, however painful, is to be preferred to a continuation into the next century of the fragmented activities which could lead to negligible individual market shares and the likelihood of profits for no-one.

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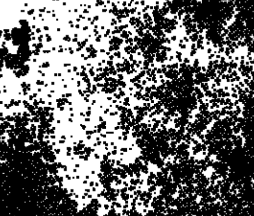
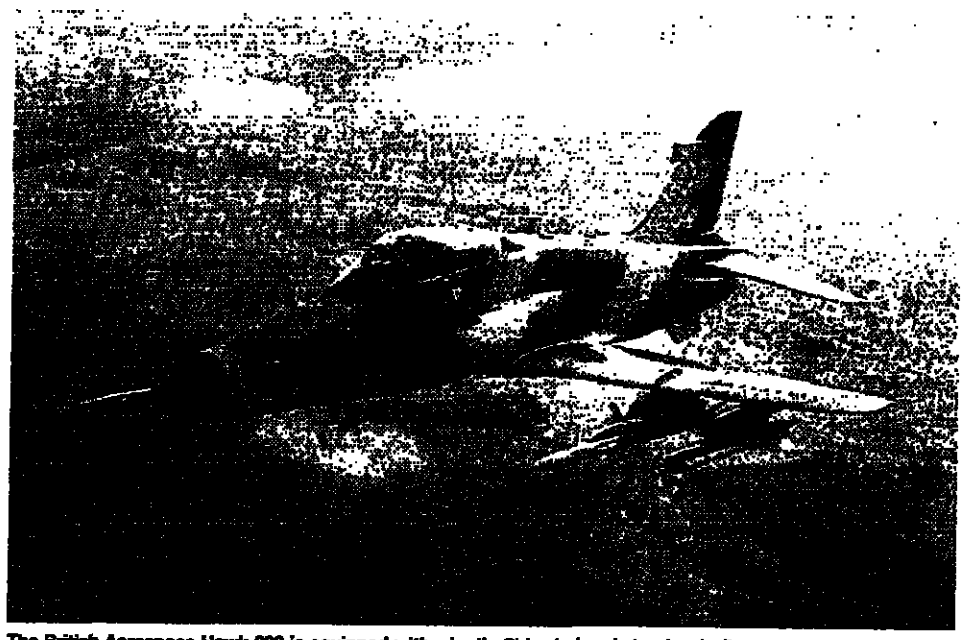


BOEING

Eurofighter continues to be dogged by worries about German commitment to the project



The British Aerospace Hawk 200 is equipped with wingtip Sidewinder air-to-air missiles

Bernard Gray discusses the dilemma faced by defence departments and manufacturers of military aircraft

Battle is on to design fighter of the future

Times have rarely been tougher for the makers of military aircraft. In western domestic markets, manufacturers are being relentlessly squeezed by reduced military spending on the one hand and escalating development costs for the next generation of equipment on the other. Export markets are also shrinking, because traditional Gulf states buyers are also short of cash.

What is worse, now the cold war has ended, few western countries have a clear idea of the threat which the next generation of advanced aircraft will have to meet. As a result, many aircraft development programmes are being stretched and there is increasing doubt about whether some aircraft under development will ever enter service.

Perhaps the safest of all programmes in this shaky situation is the F-22 US air superiority fighter. The aircraft has been under development for the past five years by Lockheed and Boeing and is designed to be a Mach-2 radar-evading "stealth" aircraft which will guarantee the US command of the air up to 2020. Since air superiority is seen as vital by the US – a view confirmed by the Gulf War – the F-22 has strong backing from the air force, the Pentagon, and, crucially, from Congress.

Because dominance of the air is seen by the US as an end in itself, few question the threat the F-22 will have to counter or the vast $71bn cost of producing the 442 air interceptors.

Indeed, with plans for a new naval fighter to replace the F/A-18 scrapped, the department of defence is considering a carrier-based variant of the F-22 instead. And as the F-111 long-range strike aircraft is being retired early in 1996, the F-22 is one possibility to undertake that kind of air-to-ground strike mission.

Despite the crash of one of the YF-22 prototypes, development is proceeding well. Work remains to be done in reducing the aircraft's weight and improve its stealth, but the programme is progressing smoothly.

Lockheed, which has two-thirds of the project now that it has bought General Dynamics' tactical aircraft business, has yet to decide whether to consolidate its operations on one site, or continue development at Fort Worth in Texas and at Marietta in Georgia. While working on one site might be more economical, Texas is an important state politically and Georgia is the home of the leader of the Senate armed services committee. The company will thus have to balance politics against economics in deciding the future of the programme.

In Europe, there is less certainty about the future of next generation fighters. Eurofighter continues to be dogged by worries about German commitment to the project – worries which are unlikely to be resolved until after the federal elections this autumn.

If Germany does reduce its order for Eurofighters, there will be some difficult negotiations about how work in the production phase should be split between the British, German, Italian and Spanish partners. Germany would not be entitled to the third of construction work it was originally allocated if it orders fewer than the 250 Eurofighters it indicated it might buy or even the 140 recently mooted.

The UK may even strengthen its hand by ordering more than the 250 it originally signed on for and buy another 100 fighters to replace its Tornado interceptor fleet. However, transferring the tooling from German factories to other partners might be uneconomic and an alternative solution may have to be found.

Potentially more damaging is the worry that uncertainty over the German position could delay the programme further, increasing costs and, if the in-service date slips, reducing the Eurofighter's technical edge over potential rivals. As one US industrialist said, "Eurofighter is a good aircraft, but they really must get on and build it before it dates."

> Few countries have a clear idea of the threat facing the next generation of aircraft

Cost concerns on such collaborative programmes are also worrying governments. While the partners want to spread the development costs by working together, duplication of effort and progress at the pace of the slowest dulls the benefits. A British government official said that he would be surprised if any of these collaborative programmes had saved money over a solo development project in the end.

France and Sweden have avoided the pitfalls of collaboration by going it alone with their Rafale and Grippen fighters, but they have their own problems. Exports will be difficult for either aircraft since it will be in service with fewer air forces than the Eurofighter.

If times are tough in fighter aircraft, they are scarcely easy elsewhere. The US has stopped production of its B-2 stealth bomber at 20, though Congress has voted $100m to keep the production line open for another year.

Northrop-Grumman, the aircraft's manufacturer, has offered to make a further 20 aircraft for a bargain $595m each. While this is less than the $850m which the first 20 cost, it may not be cheap enough to make a cash-strapped department of defence open its wallet.

Another over-budget Californian aircraft is also in trouble. The C-17 strategic jet transport aircraft has already cost its maker McDonnell Douglas about $1bn in cost overruns. The department of defence has suggested building 40 aircraft and then evaluating its performance with a view to building the 120 originally planned. But at almost $300m each, the aircraft is hideously expensive. The C-17 must pass a month-long examination next year – including simulated operations under war conditions – if it is to secure further funding. However, as California will be a key state in the 1996 presidential election, President Clinton will have to think long and hard before scrapping the programme.

In Europe, the debate is over tactical military transport with a consortium that is likely to come under the Airbus aegis keen to develop a replacement for the Hercules. The Future Large Aircraft would be able to carry larger loads than the Hercules and would fly faster, but would also cost more. Estimates of its development costs run from £2bn to £5bn, and while continental countries are enthusiastically promoting the idea, full funding is not yet in place.

Perhaps unfortunately, the FLA's first battle is against the new C-130J Hercules to replace the RAF's existing fleet. With Britain lukewarm about the project, it is an uphill climb. But with military budgets likely to be under pressure everywhere for the foreseeable future, it is the kind of battle that aerospace manufacturers worldwide are going to have to get used to.

The Tiger attack helicopter faces strong competition from the Apache

Bernard Gray looks at the market for helicopters

There's a lull in the life of a cottage industry

The cottage industry of helicopter manufacture has had as much trouble as the rest of the aerospace industry in recent years. With three-quarters of all production destined for the military market the fall in weapons procurement has taken its toll. Particularly so since the US military, long the most enthusiastic devotees of the helicopter as transport and weapon, had filled the bulk of their Apache attack programme and were in any case headed for a lull.

In the civil market, the recession in Europe and the US has taken its toll on orders, too. Corporate executives cutting staff can hardly be seen ordering the new executive aerial runabout.

As a result, the helicopter business, which has persisted as a slightly quirky specialism running at steady if unspectacular volumes from traditional sites, has experienced the kind of lull, and inevitable retrenchment, which it had avoided for many years.

But because almost all manufacturers are owned by large conglomerates, there has not yet been the rationalisation seen in many other aerospace sectors. There are still seven principal helicopter makers – Eurocopter, Westland and Agusta in Europe and Bell Textron, Sikorsky, Boeing and McDonnell Douglas in the US. Even the one which was put up for sale, McDonnell Douglas's helicopter operation which produces the very successful AH-64 Apache, was eventually withdrawn from the market due to lack of interest.

Nor is it at all clear that further consolidation is close. One industry executive points out that while the businesses are individually small they mostly occupy separate niches. The only company to change hands, Westland, lost its independence to GKN, the automotive engineering company, rather than another helicopter maker. If there is to be consolidation of the number of manufacturers, that may well be as a result of changes in corporate strategy by the parent companies, rather than conditions in the helicopter market.

Nonetheless, conditions in the market mean that parent companies and governments sponsoring helicopter development face some difficult choices. In Europe, the development of three helicopters is placing great strain on government budgets.

The Westland-Agusta EH-101 large helicopter has perhaps the safest future. It has a production contract for 44 anti-submarine warfare naval variants from the Royal Navy, and looks certain to get a further order for 25 utility transport versions from the Royal Air Force later this year. The Italian government is also due to order some, and interest has come from potential export markets, notably from Saudi Arabia, which is interested in the ASW variant.

The other two helicopters being designed by European

> Parent companies and governments sponsoring helicopter development face some difficult choices

teams face a more uncertain fate. The NH-90, being designed by the Franco-German Eurocopter group in collaboration with Italy and the Netherlands, is a smaller utility helicopter which would transport about 20 troops. There is a market in replacing ageing Puma and Sea King transporters, but the development costs are high, and there are several competitors.

The Tiger attack helicopter also addresses a strong market as more armies move towards the US doctrine of integrated air-land battle, with helicopters and tanks working in tandem. However, it too faces strong competition from the Apache and, for armed forces looking for something a little cheaper, the revamped Bell Cobra Venom with a new glass cockpit made by GEC-Marconi. With defence budgets stretched both the NH-90 and the Tiger may not make it into production.

In the US, Boeing will continue to hold the niche for very large helicopters with the Chinook, not least because the cost of developing an alternative would be prohibitive. Bell Textron also look likely to keep their strong position in light helicopters.

But McDonnell Douglas will have to continue to evolve away from its dependence on the Apache, and Sikorsky cannot be entirely sure of the future of the next-generation Comanche reconnaissance and attack helicopter. At present the Comanche has firm political backing, but if the budget squeeze gets much worse, the Comanche may come under pressure from the Apache.

The V-22 Osprey helicopter-cum-prop-aircraft also has strong backing, but the future of several of the helicopters, and the fate of their manufacturers, will rest on procurement decisions in the next few years. In particular, the race to replace ageing US marine fleets will be important.

In Europe, too, there are several important procurement decisions pending. Most prominent, and immediate, is the UK's requirement for a £2bn programme of 91 attack helicopters. Here the competition is between the Apache, which would be manufactured under licence by Westland, the AH-1W Cobra Venom with the GEC-Marconi glass cockpit, the Tiger with British Aerospace participation, and the South African Rooivalk.

The Apache has long been the front-running favourite with the British Army, but it is probably also the most expensive helicopter, both in purchase price and through-life costs. The Cobra Venom is cheaper and the new cockpit is a great improvement on the old Vietnam veteran version, but it is only a twin-bladed machine, and its weapons load is thus limited.

The Tiger is also smaller than the Apache, and while it is the newest technology, it is also relatively expensive and will struggle to carry the full weapons compliment specified by the ministry of defence. The Rooivalk is almost certainly the cheapest option to buy, though its avionics may need such radical updating that it is not really a viable option.

Because the order is one of the largest to be placed for attack helicopters in the next few years, it will have a significant impact on the market. If the Apache wins, McDonnell Douglas will have longer to develop future alternatives. If the Tiger wins, Eurocopter will have made the breakthrough it has been looking for. The Bell Cobra would give GEC-Marconi an excellent opportunity to extend its range of glass cockpit avionics, and the Rooivalk would give South Africa a huge boost in international arms markets.

Bernard Gray looks at the way ahead for manufacturers of missiles

Everyone is aiming to get smart

The Gulf War has coloured thinking in most areas of military doctrine. So much so that the sales pitch now chanted by all arms dealers is that their products were vindicated in Operation Desert Storm.

Of those systems which genuinely had their reputations enhanced, stealth technology, while expensive for most nations, was a worthy runner-up. The clear winners, however, were guided weapons. Pictures of precision-guided "smart" munitions not only impressed the watching taxpayer, they also made an impact on force commanders under pressure to keep casualties at a minimum.

Some watchers are now so enthusiastic that they think guided weapons will take over from traditional ordnance. "The way ahead is definitely with smart weapons," says Kent Kresa, chairman of Northrop Grumman. "Given the desire to protect troops, I can't see the US ordering any dumb munitions at all as we develop new technologies."

Yet, while the idea of using guided missiles is popular, the overall pressure on all western defence budgets is still making life tough for missile manufacturers. In the UK there is interest in developing a long-range conventionally armed air-to-ground missile, but it remains to be seen how much funding is available for the project.

The US is also keen on advanced technologies and is still pursuing scaled down "star wars" anti-missile missiles through its theatre ballistic missile defences. Projects such as Lockheed's Theatre High Altitude Area Defence (THAAD) missile have received backing and THAAD has a four-year $689m development contract. Yet, even in the US missile manufacturers are having to adjust as procurement spending falls.

As elsewhere in the defence industry, rationalisation and merger are seen to be the way to cope with the downturn. The consolidation seems to be proceeding more smoothly in the US than Europe. In a typical deal aimed at reaping the full benefits of rationalisation, Hughes acquired General Dynamics' missile business, and then consolidated all manufacturing on its own site in Tucson, Arizona, and closed General Dynamics factories in southern California.

In the US, Raytheon and Hughes lead the pack while Martin Marietta and Lockheed are still involved as missile manufacturers, but beyond that it is by no means clear how many groupings will survive. Construction of some systems is still split between several companies, increasing overheads. Whether the market can sustain more than two or three mainstream missile makers is questionable.

In Europe, the outlines of possible mergers are beginning to become clearer, but progress is still painfully slow. Much collaboration has been on specific programmes, for example the BAe-Aérospatiale-Deutsche Aerospace Trigat anti-tank missile. But such collaborative ventures tend to suffer from many of the disadvantages of high overheads and compromise designs. Still, since missiles contain some of the highest technology under development, countries are reluctant to release control for national security reasons as well as industrial concerns.

There are talks about wholesale mergers, some of which have been mooted for a long time. British Aerospace's negotiations with Matra continue unabated, while hints of a merger between Aérospatiale's and Deutsche Aerospace's missile businesses gather pace. In part, these mergers would help cut out duplication in research and development, and would cut down on the high level of cut-throat competition which has hurt profit margins. It may also be a prelude to a grand missile merger of both groups to form a European missile giant which could be capable of developing the kind of ballistic missile defence systems some European countries are starting to covet.

It is more difficult to see how the electronics manufacturers for missile systems – companies such as GEC-Marconi in the UK and Thomson in France – fit in to such a grand scheme. It may be that by providing sophisticated specialised equipment, such as sensors, to a range of missile makers worldwide, they can gain sufficient scale to remain viable in their current form. Equally, there may be a horizontal merger between electronics companies to produce a large sub-system supplier. But the idea that GEC-Marconi might take over BAe Dynamics, for example, seems to have faded.

Cruise missile under construction: a clear winner in the Gulf War Picture: Glyn Genin

Other ways of cutting costs in the hostile environment are also being tried. Efforts are being made in Europe and in the US to cut costs by transferring technologies between missile systems. Unfortunately, adapting equipment from air-to-air missiles for use in ship-to-ship combat is neither as easy nor as obvious as it might appear. The conditions under which the missiles have to operate vary so much that a weapon optimised for conditions on the wing of a Mach-2 fighter may suffer badly when exposed to corrosive sea spray.

As with so many areas, decisions on procurement will determine which companies gain the upper hand in mergers, and indeed, which can survive in the missile business. In the UK, there is a need for a long-range stand-off air-to-ground missile based on the Gulf War experience. A new medium-range missile is needed for the Eurofighter, and a short-range anti-armour air-to-ground missile for the Harrier is under consideration. A range of anti-armour and anti-ship weapons are being developed in continental Europe and the US is considering a new short-range air-to-air missile.

Unless individual countries are prepared to allow transfer of missile manufacturing abroad, and it remains one of the most sensitive cutting edge technologies around, Europe will continue to pay higher prices for fewer weapons than the US. Rumour suggests that the long-awaited BAe-Matra merger may be announced at Farnborough, as a 50-50 joint venture and a Frenchman in the chair. If it happens, it will not be a moment too soon.

Avionics: **Joel Kibazo** on the move by companies to restructure operations

Size is the critical factor

The twin forces of recession and cuts in defence spending have forced consolidation and restructuring on the world's avionics and component suppliers.

The end of the cold war led western governments to reduce military spending. In civil aviation, the prolonged recession, and the Gulf War not only decimated the tourist industry sharply reducing passenger numbers, but coincided with a glut in airliners coming off the production lines. Although airline traffic has started growing again, several hundred aircraft remain parked in the desert.

It was thus only a matter of time before manufacturers of components and avionics, the next tier down in the supply chain, would be forced to share the burden. Customers have not only been pushing for cost reductions among the suppliers but have been demanding more sophisticated products and reducing the number of suppliers with which they have to deal.

The sector's response has been consolidation and restructuring which some say is similar to one seen in the automotive industry a decade ago.

Much of it has taken the form of mergers and acquisitions though strategic alliances have not been far behind, bringing together once bitter competitors, with cost and risk sharing being a prime mover in the drive for market leadership.

Examples of companies moving in that direction include Smiths Industries of the UK which formed an alliance with its competitor Rockwell International Corporation of the US three years ago, to provide full flight integration system. Some saw this as an attempt by the new group to compete with Honeywell, the US electronic control systems group which is the market leader in that field. Honeywell has in turn formed an alliance with two UK companies; one with Racal on satellite communications systems and another with the GEC on the fly-by-wire systems.

But not all proposed alliances have been carried through and this year the biggest disappointment has been the failure of the proposed merger between France's Sextant-Avionique and Allied Signal of the US. The deal would have made the combined group number three in its field. But where a merger or alliance has been successfully carried out, manufacturing improvement initiatives have been introduced and new technologies developed.

The restructuring in the sector began in the United States, the world's biggest aerospace market, and the first to face the chill winds of recession and the first wave of defence cuts.

Deals by prime contractors such as Martin Marietta's acquisition of General Electric's aerospace division in 1992 and General Dynamic's sale of its missiles subsidiary to GM Hughes in the same year were cited as the trigger for a similar shake-up or "re-engineering" among the suppliers.

The search for market leadership has usually been the driving force behind the consolidation attempts. Companies with product lines in third or even fourth place in their chosen market place have been forced to either quit the field or seek an alliance in an attempt to strengthen their market position.

Mr Paul Saleh, vice-president and treasurer at Honeywell, which is a supplier to both the military and civil aerospace markets, said: "What we have seen over the last few years is a need for each supplier to be a leader in its specialised field. You have to be a leader in technology with a reputation for delivery and have the trust of the customer."

He acknowledges that size has become the critical factor, and says it is not only useful in terms of economies of scale but also suggests it is the bigger companies that can afford the ever increasing development costs. "This is a global market that is becoming more competitive and there is little room for marginal participants," he said.

Mr Saleh highlighted a new move in the restructuring process, that of "out-sourcing" of a complete part of the production process, to the supplier. This he believes will become increasingly prevalent among suppliers to the civil sector in which change has been slower than on the military side, due in part to the small number of big manufacturers, McDonald Douglas, Airbus, and Boeing.

Earlier this year, Boeing provided the biggest example of "out-sourcing" to a supplier with its decision to hand over the complete manufacturing and integrating of the flight deck system on its new 777 airliner to Honeywell.

The move was not only seen as an attempt to meet customer induced cost cuts but was hailed as a first in "working together with the customer" by suppliers. It is also seen as a possible indicator of the next level of restructuring as Honeywell attempts to push costs of its suppliers lower.

European companies have been no less ready to meet the challenge of the new harsh environment and analysts have pointed to possible cost benefits of between 10 and 20 per cent from restructuring the industry.

Lucas Industries, the automotive components and aerospace group, is cited as an example of a company that is attempting to become a world leader among European suppliers.

Mr Frank Turner, managing director of Lucas Aerospace, said: "We took a look at what was happening in the industry and at ourselves and decided we had to do something if we were to remain in the game."

The company has gone all out to transform itself from a component supplier to the aerospace industry into a systems integrator. As part of that plan it paid £18.8m a year ago to acquire TI Group subsidiary Dowty's fuel control business and in June signed a joint venture agreement to establish a repair and overhaul facility for engine and flight control systems in China.

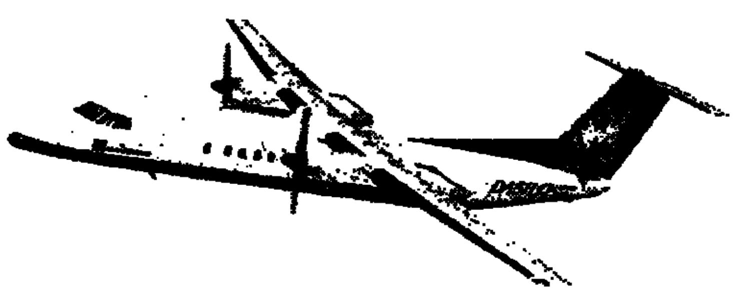
But it is 1993's merger between Dowty and Snecma's Messier Bugatti of France to form a world leader in landing gear that many have pointed to as the clearest example of the restructuring that is taking place among component suppliers in Europe.

Mr Tony Edwards, chief executive of Dowty Aerospace, said: "We wanted to be a world player in landing gear so we align ourselves to achieve that goal. We sold those businesses where we could not be a global player."

However, analysts say similar deals will be more difficult to achieve. They point to nationalism – the wish to retain a particular industry in a country – and sensitivity to national defence interests as two factors that may act as a brake on restructuring. Thus alliances, rather than straightforward mergers, may be the route for European companies wanting to compete with the giants of the US.

But Mr Paul Compton, aerospace and defence analyst at Credit Lyonnais, believes joint ventures are of less benefit than full mergers as national interests tend to intervene especially on decisions such as a reduction in staff numbers. Thus, he said, the very nature of a joint venture was likely to create inefficiency.

He concluded: "The US sector is almost twice the size of that of Europe and what is more it is homogenous and thus does not suffer from nationalistic barriers. Europe will have to decide whether its nationalistic differences can be forgotten in a bid to form global companies or it will be left behind in a key world industry."



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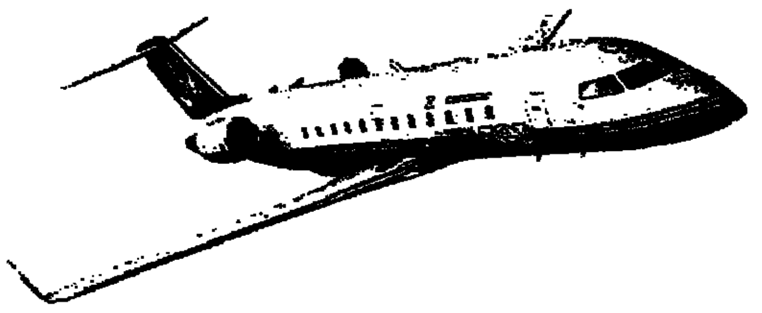

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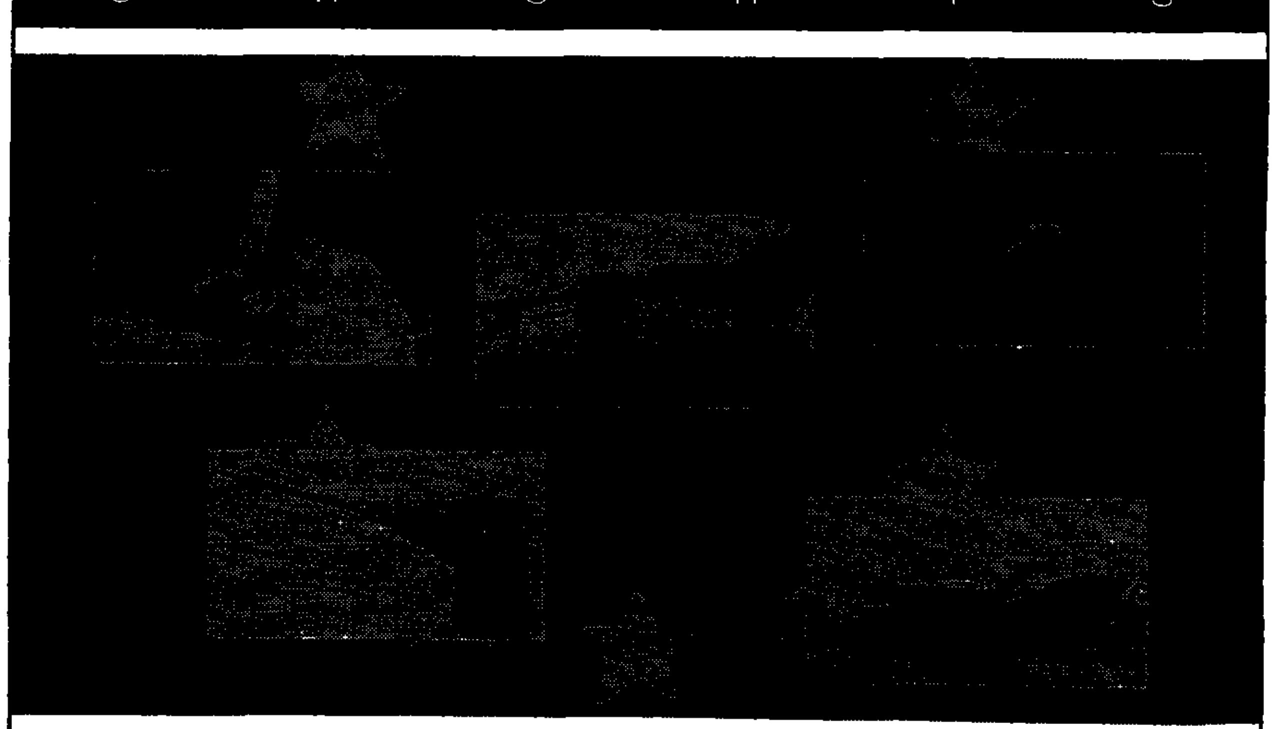

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SHORTS

AEROSPACE 7

Paul Betts looks at the industry's next challenge – the super jumbo

The race is on to build the big 'un

The world's two leading commercial aircraft manufacturers – Boeing of the US and the European Airbus consortium – have been stepping up the pace in their efforts to meet what they believe will be the next big challenge for the industry: the development of a new generation of super jumbo airliners capable of seating 600-800 passengers and possibly even more.

For the past two years, Boeing and the four Airbus partner companies including Aérospatiale of France, Deutsche Aerospace, British Aerospace and Casa of Spain have been conducting joint studies on how to develop and market together a Very Large Commercial Transport (VLCT). But the two sides have also remained deeply suspicious of each other and have continued to pursue their own studies in the event their ambitious VLCT collaborative project collapses.

So far only two airlines have said they would be prepared to commit themselves to buying a super jumbo. Not surprisingly, the two are the world's most profitable carriers, Singapore Airlines and British Airways. However, most other international carriers, still struggling under the burden of financial losses and debt accumulated during the industry's worst post-war recession, have been reluctant to express anything more than a vague interest in a large capacity airliner which is likely to cost them around $200m a piece.

That has not deterred the two manufacturers on each side of the Atlantic to pursue their studies. They believe that in the longer term there will be a requirement for around 300-500 super jumbos in the next century. They see these extra large aircraft as providing a solution to increasing congestion at busy international airports and air routes at a time when air travel is expected to continue showing steady expansion and in some areas in the Asia-Pacific region vigorous growth.

"We think a big aircraft is necessary to cope with traffic growth and congestion at airports, especially when you consider that 33 airports alone account for 50 per cent of world air traffic," says Claude Terrazzoni, head of the commercial aircraft division of Aérospatiale, the French Airbus partner.

Sir Colin Marshall, BA's chairman, explains that a super jumbo would help the UK carrier tackle some of the growing congestion problems at its London base of Heathrow. It would also give BA the opportunity to offer new services for passengers. BA has already made its own design studies for the configuration of such an aircraft, including the introduction of inflight business offices equipped with faxes, telephones and personal computers, a cinema-style

So far only two airlines have said they would be prepared to commit themselves to buying a super jumbo - Singapore Airlines and British Airways

inflight entertainment room, and even a work-out section for fitness addicts.

"We see the use for such an aircraft on Far East routes, Australasia services and across the Atlantic," Sir Colin says. "And we would be willing to go forward with a new aircraft of 600 seats offering the same long range but also 20 per cent lower operating costs than the Boeing 747-400," he adds. Jean Pierson, the Airbus chief executive, believes there will be demand for a very large aircraft by the turn of the century. "By around 2002, airlines will have to consider replacing their existing 747-400 fleets," he explains.

But both Boeing and Airbus agree that there is unlikely to be room in the market for more than one new super jumbo project in view of the programme's heavy development costs estimated at around $8bn-$10bn. This was the main reason behind the decision of Boeing and the four Airbus partners to consider collaborating in the same way as US, European and Japanese manufacturers believe that the eventual development of a next generation supersonic airliner to replace Concorde will need the broadest possible international co-operation.

Although Boeing and the Airbus partners have pursued their joint VLCT studies, there have been growing signs of tensions emerging between the two sides and strong possibilities that they will ultimately decide to part ways.

Airbus has become increasingly worried that Boeing is using the joint studies as a tactic to delay the European consortium's entry into the very large aircraft market and challenge the US company's traditional monopoly of this sector with its 747. The Airbus theory is that Boeing is in no hurry to launch a new large aircraft development programme at a time when its hands are already full with other projects including its new 777 widebody twin-engine airliner, the renewal of its 737 family of narrowbody twin-engine airliners and the development of a cargo version of the 767.

Boeing has clearly been anxious to protect its dominance of the top end of the market and has maintained close contacts with airline customers. Apart from the joint studies with the Airbus partners, Boeing has been considering developing a bigger version of the 747 with a new wing. It has also been studying the development on its own of a new very large aircraft.

With increasing signs that Boeing's preferred option is to build a bigger derivative of the 747 and that the Seattle manufacturer is already quite advanced with its studies, Airbus recently decided to step up its own efforts to develop a new 500 to 600-seat jumbo, the A3XX.

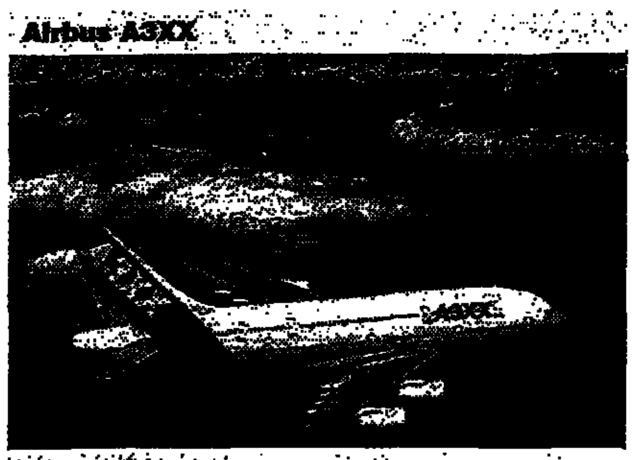
"You simply cannot afford to be out of such an important segment of the market if you want to remain a leading aircraft manufacturer," says a senior Airbus official. All manufacturers expect the top end of the airliner market to become increasingly important with aircraft of more than 400 seats accounting for more than 40 per cent of the value of the civil aircraft business in the next 20 years.

"We must give Boeing the strongest possible signal that Airbus will develop its own jumbo if Boeing decided to go it alone with a bigger 747," adds Louis Gallois, the Aérospatiale chairman.

This has prompted the Airbus supervisory board to give the consortium the go-ahead to start marketing in September its new A3XX jumbo to a selected group of international airlines after the Farnborough Air Show. The Airbus plans involve an aircraft with two decks running the full length of the fuselage, powered by four engines and would have a range of 7,000-8,000 nautical miles.

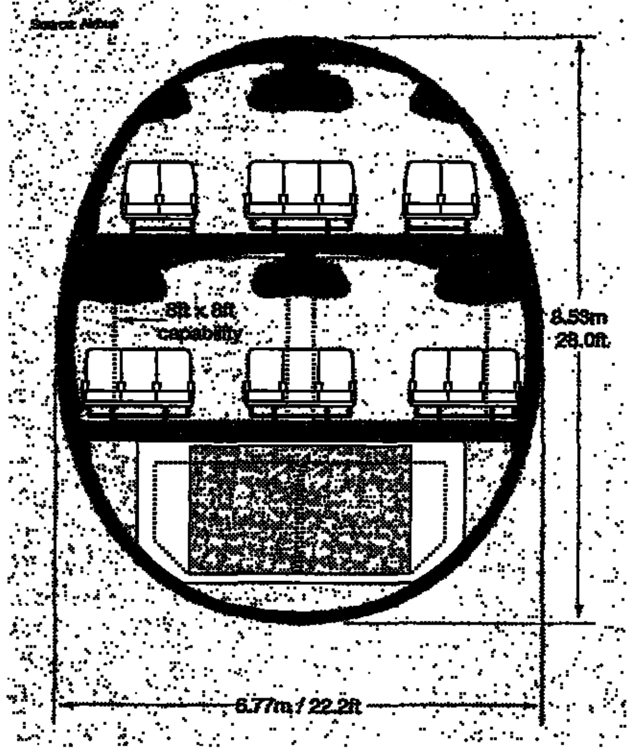
With the probabilities increasing that Boeing and Airbus will ultimately decide to go their own separate ways in the jumbo market, the race is now on to build the world's biggest aircraft.

Airbus A3XX



Cross section

Source: Airbus



Michael Donne on a successor to Concorde

SST-2 is still far away

The development of a second-generation supersonic airliner to succeed the Anglo-French Concorde depends on two factors – satisfactory financing and production arrangements and solving the outstanding technological difficulties, especially those affecting the environment.

Few doubt that such an aircraft will eventually emerge, although it is now accepted that its likely birthdate may be around 2010 to 2015.

By 2000, Concorde will have been in service with British Airways and Air France for nearly 25 years, so that every year thereafter heightens the possibility of either a diminution of existing supersonic services as Concordes age and are "cannibalised" for spares, or a gap of some years before a successor emerges.

Despite the aerospace industry's desire to start developing a successor, there is little enthusiasm for such an aircraft among the world's leading airlines, faced as they are with their cumulative losses of more than $15bn over the past four years. They are more inclined to spend their available cash on airliners that are more likely to meet mass market demands, help reduce congestion and generate profits, than on second-generation supersonic transports. As a result, they are far more interested in a new subsonic 500-plus seater, the so-called megajumbo, than a second-generation supersonic transport.

Moreover, the airlines remain suspicious about the financial and environmental acceptability of an SST-2.

The two airlines flying Concordes, British Airways and Air France, have made it clear that while they may be interested in the long-term in any SST-2, they want to be absolutely sure that such an aircraft is profitable to buy and fly from the start, and totally acceptable in every way to the communities it will serve. They are keenly aware that government-imposed environmental constraints upon the airlines and aerospace industries are likely to become even more stringent in the next century, and such an aircraft, may well face environmental constraints that have not yet even been defined.

The SST-2 research so far has been concentrated on an aircraft seating 300 passengers (against Concorde's 100), with a range of about 5,600 to 6,000 nautical miles (against Concorde's 3,000), and a speed of around about 1,500mph.

Despite the undeniable advances in research into supersonic transport technology since Concorde first went into service in 1976, especially in the reduction of nitrous oxide emissions (N0x), the latter remain a problem.

There is also still no answer to the sonic boom created by large aircraft flying at twice the speed of sound even at high altitude. This means that future supersonic services would still be largely restricted to over-ocean routes, with subsonic flights over land masses. This, in turn, means that interest in such aircraft is likely to be confined to those airlines with a substantial number of long-distance over-ocean flights in their overall operational patterns.

There is also the problem of development cost, likely to be between $8bn-10bn, or about the same as the cost of any subsonic megajumbo. It is doubtful whether aerospace industries could finance both developments in tandem.

Although demand for the megajumbo may be limited – with perhaps only a score or so airlines likely to support it initially – its ultimate market seems likely to be significantly larger than that for a second-generation SST. The airlines believe that the subsonic megajumbo is more likely to improve their battered balance sheets.

Another reason for airline scepticism about the SST-2 is that while much technical research is under way, especially in the US through the government-sponsored National Aeronautics and Space Administration, there is still no sign of a coherent and practicable design, development, production and marketing plan for such an aircraft.

While theoretically the airlines might prefer to have competitive designs from which to choose, industrial and financial logic dictates that one common design would stand more chance of economic and technological success.

But any kind of agreement on such a formula appears to be a long way off. There have been wide-ranging international discussions between the US manufacturers, Boeing and McDonnell Douglas, and their European counterparts, British Aerospace, Aérospatiale, Alenia of Italy and DASA of Germany, with both Russian and Japanese companies also involved, on the possibilities of an eventual joint venture.

At the same time, however, the US and European companies have also been pursuing their individual studies.

The balance appears strongly to favour the US at present in terms of government financial involvement. Hundreds of millions of dollars have been, and still are being pumped into aeronautical research through NASA's own high-speed research programme, and by the leading engine and airframe manufacturers. There is no comparable coherent programme in Europe.

Concerned at this situation, the leading European manufacturers earlier this summer told their respective governments and the EU that some level of state and/or community input to help research into a Concorde successor was essential, so as to ensure that Europe did not fall behind the US. So far, however, there has been little sign of any such cash support. Any single SST-2 venture would also probably have to be global anyway, to ensure the widest spread of costs and the biggest possible market. Whether US anti-trust laws would permit such an alliance remains a significant query.

Demands for cash to finance the renewal of much of the existing ageing subsonic fleet are already heavy, and will escalate as traffic grows and fleet expansion becomes imperative. Lenders other than governments seem more likely to favour the procurement of a subsonic megajumbo, offering some guarantee of successful financial returns, than any SST-2 venture.

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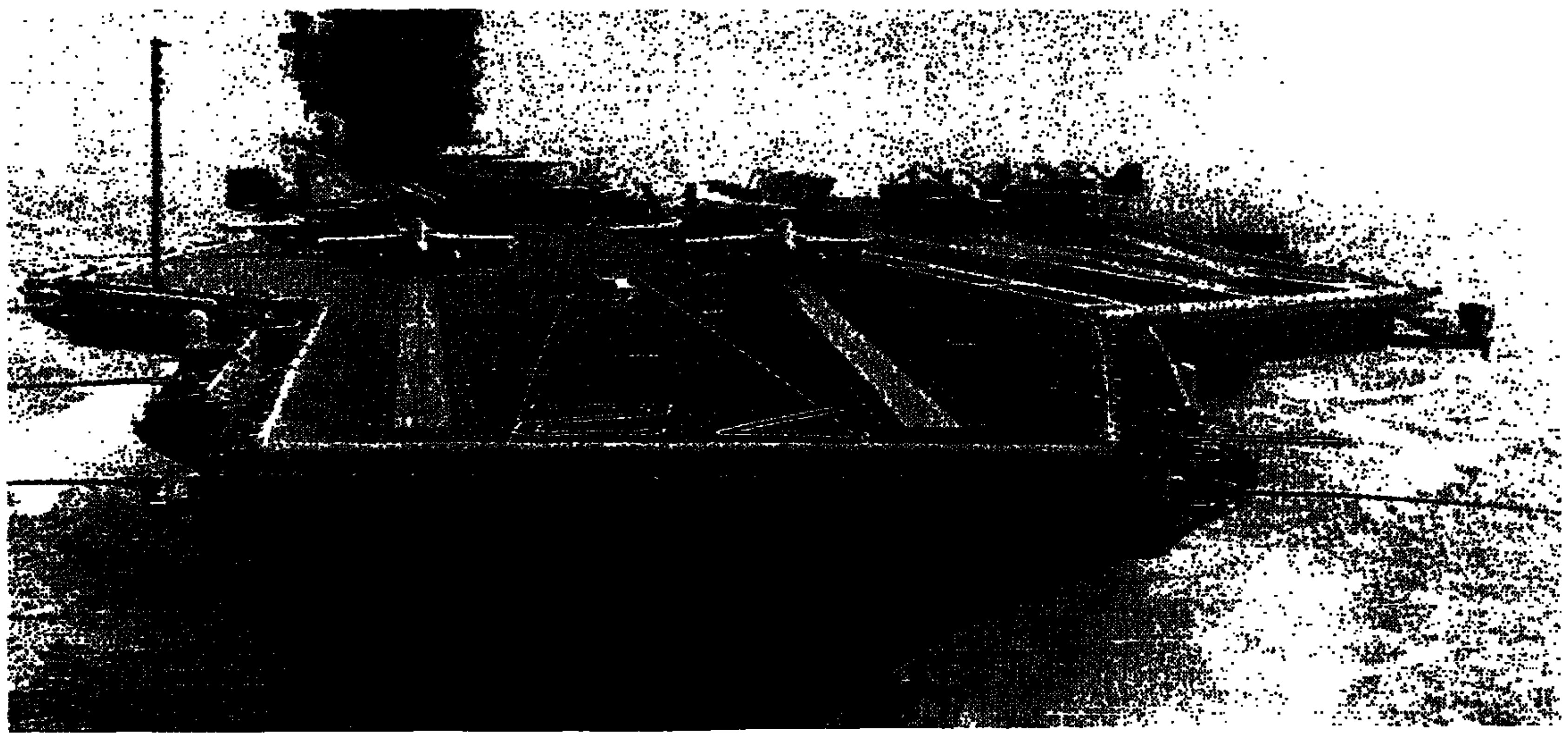

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Paul Betts looks at spaceflight

Satellites the top priority

On Sunday, July 20, 1969, US astronaut Neil Armstrong, commander of the spacecraft Apollo 11, became the first man to set foot on the moon. As he took his momentous first step he said: "That's one small step for man, one giant leap for mankind."

But 25 years later, the dizzy excitement of space exploration fuelled by the race in space between the US and Russia has been replaced by the more mundane worries of an industry fighting like many others for continued public and government support to help fund its future development and challenges.

Space has become a commercial enterprise, albeit a high-risk one, and many of its remarkable technological achievements are now taken for granted by a population more concerned about jobs and welfare than by new scientific discoveries and the prospect of human beings living and working in space one day.

"I find it rather sad to see around here a relatively small crowd of people. When I've been here in the past it was jam-packed," said a senior executive of the Anglo-French Matra Marconi Space group. He was speaking moments before the launch in July at Cape Kennedy in Florida of the US shuttle Columbia carrying an international space laboratory inside its cargo bay.

The launch was spectacular and successful. The shuttle was blasted into orbit in a great cloud of smoke for a 14-day mission when its seven crew, including Japan's first woman astronaut, conducted life science and other scientific microgravity experiments inside the $1bn laboratory.

But it made little impact in the news. In the US, the big stories were the trial of a famous American football star, floods in Georgia, unemployment figures and the death of the North Korean leader. If the American newspapers relegated the mission to the inside pages of their newspapers, it was lucky to find even the briefest of mentions in the European press. Only the Japanese covered the story in full, reflecting the presence on board the shuttle of the first Japanese woman in space and the determination of Japan to build up a strong presence in the space sector.

In Japan, the government space budget is continuing to rise while it is declining elsewhere. The latest victim of budgetary reappraisals in Europe is the Hermes project to build a European manned space vehicle. In the US, the National Aeronautics and Space Administration (NASA) is having to fight for funds every year and many of its space projects, especially the $30bn space station due to be completed by 2002 and involving broad international collaboration, are living on a budgetary knife-edge.

With the emphasis now being placed increasingly on the commercial opportunities offered by space, governments, space agencies and manufacturers of space equipment have been concentrating on the satellite business, in particular for earth observation, meteorology and communications. Governments have also continued to show growing interest in satellites for military applications. The role played by satellites in the Gulf war has further boosted this interest.

In turn, competition in the satellite and satellite launch business has intensified. The commercial battle has essentially pitted the US against Europe. In the commercial satellite launch business, Europe has managed to build a leading position during the past 14 years with Arianespace and its Ariane rockets.

The French-led Ariane programme has done for the European space industry what the Airbus consortium has achieved in the civil aircraft field: the establishment of a credible competitor to the US dominance of commercial aerospace markets that lasted until the early 1980s. But although Ariane has now taken a share of more than 50 per cent of the commercial satellite launch market, it is facing tough competition not only from US launchers but also from Russia, China and Japan, all seeking to penetrate the western market.

With a finite market of around 20 commercial satellite launches a year, the battle for market share has provoked increasing international trade tensions mirroring those in the commercial aircraft market between the US and Europe. The US have accused the Europeans of subsidising its rocket launcher industry, while the Europeans have accused the Americans of cross-subsidising commercial launch operations with their large military satellite market, which to all intents remains closed to international competitors. And both the US and Europe have campaigned against price dumping for satellite launches by the Russians and the Chinese and sought to negotiate trade agreements with these countries.

Competition has been equally fierce in the satellite manufacturing side of the business. It has forced leading manufacturers to seek wider partnerships and has led to increasing consolidation in the industry. In Europe, two big transnational groups are being established to create the economies of scale necessary to compete in a tight market.

The French Matra group has already merged its satellite activities with those of the UK General Electric Company into a joint venture called Matra-Marconi Space, which is 51 per cent held by the French concern. Matra-Marconi Space is now acquiring the space systems division of British Aerospace in a deal which would create a European space group with annual sales of more than $1bn. At the same time, Deutsche Aerospace, the aerospace arm of the Daimler-Benz car group, is negotiating to merge its space operations with those of Aérospatiale, the French state-controlled aerospace company.

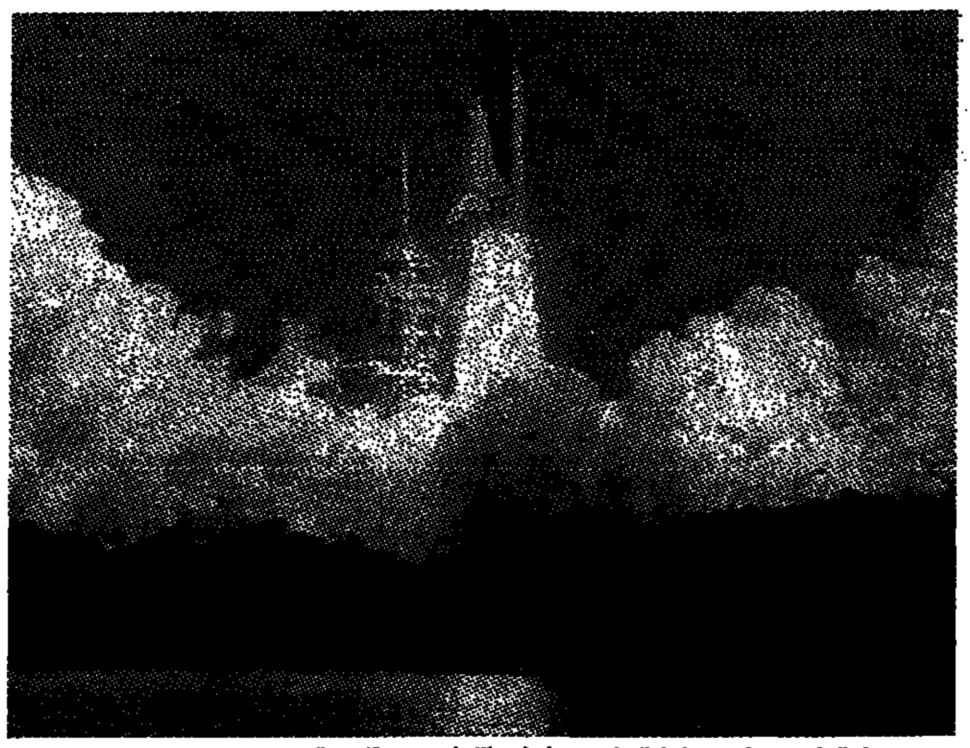
But if the prospects for the satellite business remain secure, even though it is likely to face increasingly competitive pressures, the future of manned space flights continues to be clouded with uncertainty. NASA officials concede that the fate of the US space shuttle will hinge on whether the US-led programme to build an international space station will survive or suffer from government budgetary cuts.

The $30bn project is designed to create a permanent orbiting science institute in space capable of performing long-term research in materials and life sciences in a gravity-free environment. NASA says that this fundamental research will accelerate breakthroughs in technology and engineering that will have practical applications on earth.

"What governments must decide is whether you should continue supporting long-term fundamental scientific research and space exploration or simply go for short-term commercial pay backs," said one senior US space industry official.

The issue is now taking on, once again, an international political dimension. But in contrast to the race between the US and Russia 25 years ago when the two superpowers were competing to outmanoeuvre each other to take the leadership in space, they are now working increasingly together. NASA recently signed a $400m contract with the Russian space agency to support a joint programme involving the US space shuttle and the Russian Mir space station. The contract also covers co-operation in the planned international space station.

This collaboration, which both sides see as consolidating the new post Cold War era, could prove to be the main driving force to keep alive the long-term ambitions of the international space industry.



Lift-off: 25 years after the moon landing, US space shuttle missions make little impact in news bulletins

Computers and teamwork cut development costs

Paper aeroplanes are looking dated

It is no surprise that spending by aerospace companies on computer-aided design, manufacturing and engineering software is such an important part of their capital investment, as it addresses key issues for the industry's future – "time to market" and global competitiveness.

The trend towards "paperless aircraft" and more efficient links with component suppliers is being driven by a need to reduce product development times through concurrent or simultaneous engineering. This requires a much greater sense of teamwork among different functions, and between suppliers and customers, supported by computers. Behind all this is the relentless drive to cut development costs.

According to Dataquest, the US-based market research concern, worldwide spending on Cad/Cam/Cae and GIS (Geographical Information Systems) software by the aerospace/missiles/and space vehicles sector was $432.1m in 1992, accounting for 8.5 per cent of the total spent by industry.

The relevance of such software can be seen in programmes at all the main airframe manufacturers, civil or military. At McDonnell Douglas, which is one of the largest users of EDS Unigraphics software, the most modern fighter aircraft in the world, the F/A 18-E/F, is being designed using all the collaborative elements offered by a process called Electronic Product Development.

Unigraphics says that Northrop in California, GE Aircraft Engines in Cincinnati and McDonnell Douglas in St Louis are able to work as one team, sharing data, reviewing designs and programme plans on-line, while building a 3D model that can be verified and tested on screen, then manufactured in the knowledge that parts will fit.

Expensive physical mock-ups are therefore eliminated. Unigraphics says its target now is to allow airframe and engine manufacturers to handle a digital model of up to 10,000 components effectively.

Where a "real" part is needed, the aerospace industry has taken quickly to the concept of "rapid prototyping". A process known as stereolithography is used to create a full-scale part, normally made out of plastic resin, from a three-dimension Cad file. This saves weeks or even months on the traditional pattern-making process.

At the other end of the line, with the customers in the airline industry, there are programmes such as Intergraph's Veramis (Vehicle Repair and Maintenance Information System), used by KLM and Virgin Atlantic Airways.

This enables complete aircraft and aircraft sections to be visualised as intelligent three-dimensional computer images, and is said to be up to five times faster than manual repair registration systems.

A report about to be published by Dataquest* analyses some of the trends influencing the purchase of Cad/Cam/Cae software, and the extent to which the aerospace industry has moved towards paperless design and production. Among them are:

■ **The need to interchange information with suppliers and subcontractors.** The capital cost and scale of operation involved with the design and manufacture of a complete new aircraft is prohibitive, it says, resulting in relatively few large organisations supplying a few customers using a high percentage of subcontracted parts.

"Changes to an aircraft design at any stage can ripple through the supply chain, causing many changes in the lower levels," says Dataquest. "Minor changes at lower levels can cause major problems with designs at higher levels. It is vital that information flow, even if restricted, is accurate."

■ **Methods for information interchange.** Low-level subcontractors providing sub-assemblies to a rigid specification provide electronic information to their customers, usually on magnetic media. High-level companies require certification of design and sign-offs for designs. At present, these must usually be in paper format, forming legal documentation, backed up with electronic data.

The problems of security and the need for legal acceptance of designs are the key reasons for the continued use of paper-based information transfer. Electronic interchange is typically used for prototypes, working designs and intermittent information.

■ **Importance of Cad for the design activity.** The use of Cad/Cam/Cae tools is widespread, with high percentages of products being developed using them. The ability to model assemblies, interactive parts, and to test parts functionally are invaluable. Many systems can provide the specialist features and functions required by aerospace manufacturers.

■ **Decision process to purchase new systems.** The nature of aerospace developments has forced the development of customised systems, which must support many projects that may all be at different stages of their life cycle, and may be undertaken on an international basis. So in many aerospace companies, the purchase of design tools is part of a global IT-strategy.

Another significant factor, says Dataquest, is the increasing importance of international consortia and joint development agreements, such as Airbus. "These approaches force commonality in the purchase of compatible systems that ripple through the supply chain, influencing the effectiveness and requirements for integrated product development."

* 1994 *Focus Report. Discrete Manufacturing: Integrated Product Development. Details from Dataquest, tel 0494 422722.*

Andrew Baxter

High profile: the screen above the pilot's left hand displays information received via the satcoms link

Michael Dempsey looks at satellite navigation

The sky's the limit

Transatlantic navigation has come a long way since Alcock and Brown crash-landed in an Irish bog after pioneering the route from Newfoundland to Europe in 1919. Passengers on a wide-bodied jet are confident about precisely where and when they will arrive. But the huge fuel costs involved in long-haul aviation make any saving on time worthwhile. Airlines jostle for slots across the lucrative north Atlantic routes while pilots seek tail-winds that can chop precious minutes off the journey.

The objective is to boost profits by chipping away at fuel consumption figures. But the volume of traffic on this route means that aircraft must maintain a strict separation. Without radar coverage crews rely on time to keep flights well apart. Safety dictates a 10-minute margin between aircraft. This prevents collisions but frustrates economy measures and extra flight slots.

Enter Automatic Dependent Surveillance (ADS). This project aims to provide an air traffic picture for the north Atlantic by mimicking radar data. Satellites are the key, taking signals from airliners and bouncing them back to a terrestrial control centre.

British Airways (BA) has been experimenting with satellite navigation since September 1992, using a Boeing 747 kitted out for ADS. This relies on Inmarsat navigation satellites to relay information to and from ground stations. Air traffic control (ATC) gets the exact position of the 747 within 12 seconds.

Radio contact with ATC entails a delay of up to 15 minutes before an aircraft is cleared to change its slot in pursuit of a favourable tail-wind or to exit turbulence. ADS cuts this to 30 seconds. Dramatic cost benefits have been claimed on Pacific routes, where United and NorthWest Airlines use ADS. NorthWest reckons annual savings of $500,000 for each of its 50 Boeing 747s are attainable. United has the nickname Stealth Airline because its crews make so little use of radio signals.

Inmarsat's Fintan Ryan is adamant the ADS price tag of $150,000 per aircraft is soon recouped. "The savings are proven on the Pacific route. ADS means the aircraft takes off and flies only the course that optimises costs," he says.

Over the north Atlantic ADS promises to halve the separation between flights, doubling the slots available. These developments offer improved exploitation of airspace. In the final approach, as the aircraft lines up to land, an international battle has broken out between satellite-based and terrestrial navigation aids.

Global positioning system (GPS) relies on a constellation of 24 satellites to measure the distance between the GPS receiver and the satellite. With three satellite signals it is possible to locate the position of the receiver anywhere on earth. GPS was originally developed for the US military and has spread rapidly throughout the civil sector. It offers a very cheap means of satellite navigation, with yachtsman's GPS sets now available for as little as £350.

The GPS lobby claim their system is the answer to air navigation over developing countries and remote regions. However, pilots with leading carriers are happy with existing gyroscopes and laser-based navigation systems.

For landing, civil aircraft switch to Instrument Landing System (ILS) to co-ordinate their final approach to an airport. ILS relies on radio signals to guide the aircraft in. But encroaching signals from FM commercial radio stations mean that ILS's days are numbered. The maker of GPS satellites and receivers, US avionics giant Rockwell, have spotted an opportunity.

"You see these massive markets in Russia and China opening up. They don't have a huge radar infrastructure. With GPS there is a tremendous advantage to be gained," says Ken Medlin, a Rockwell vice-president. There is also a lot of money on the table. The US Federal Aviation Authority (FAA) has commissioned a $500m project to convert ILS approaches to GPS.

Mr Medlin and his colleagues argue that since GPS does not require a huge terrestrial infrastructure it is a cheap option. Unfortunately GPS is not yet suited to landing an aircraft in the worst weather conditions, known to pilots as Category 3. And Category 3 is a familiar state to crews landing in Europe. The UK Civil Aviation Authority has thrown its weight behind Microwave Landing Systems (MLS) to replace ILS by 1998. MLS uses proven microwave beam technology to guide an aircraft down in fog. Despite the US FAA's endorsement, the CAA rejects GPS as "not yet fully proven" for precision guidance.

Suspicions about the reliability of GPS are compounded by the fact that GPS satellites are controlled by the Pentagon. By contrast, Inmarsat answers to a 74-nation consortium. An accord between the US military and the FAA over civil use of GPS has failed to quell European suspicions.

Even if the military agree not to scramble or break signals in time of conflict, how can operators be sure of future tariffs? Satellites have a finite life, and European airlines are convinced that the GPS community will seize on a chance to recoup the vast military investment.

David Fishlock discusses new materials

Down-to-earth research

Daniel Goldin, administrator of the US National Aeronautics and Space Administration, interviewed last spring by the FT, stressed that aeronautics, and spin-off from space research for the civil aircraft industry, would be given greater emphasis in Nasa's $14.5bn research and development budget.

Aeronautics, although named first, has played the subsidiary role ever since cancellation of research funds for the titanium Supersonic Transport (SST) nearly quarter of a century ago. Now, Nasa has joint programmes with the US aircraft industry on both supersonic and advanced subsonic airliners expected to enter service early in the next century. New materials are one of the main R&D goals.

Nasa's European counterpart, the European Space Agency, is no less concerned to bring more of its technology nearer the ground. Its technology transfer initiative, run by Spacelink Europe, a consortium of technology brokers, has identified no fewer than 170 opportunities for transfer, among them advanced materials for heat resistance, lubrication, sensors and stiff lightweight structures.

Earlier this year, one of Europe's most spectacular packages of advanced materials, the Rolls-Royce Trent engine for Airbus A330, was certified on schedule. The Trent is the most powerful engine Rolls-Royce has ever built. Its makers claim it is significantly lighter than competing US engines and runs at lower peak temperatures, while they remain confident it can be pushed to 100,000 lbs thrust.

But Rolls-Royce has been at the forefront of those urging the government to recognise the profound importance of advanced engineering materials to Britain as a manufacturing nation. The US subsidises aerospace materials development through both Nasa and the Department of Defense. Germany, in July, announced a new £500m subsidy for research to help its aerospace industry meet US and Japanese competition. The Japanese have long supported national programmes in such sectors as engineering ceramics, where many believe they lead the world.

For Britain, the real purpose of the now-defunct Hotol project was as a test-bed demonstrator for advanced materials development that would push engines way beyond the Trent. Not only have UK engineers lost this opportunity, but they face further cuts in materials R&D through the undertaking to axe defence R&D by another £50m-£60m a year. Moreover, two major UK sources of carbon fibre composites and other advanced aerospace materials, ICI and Courtaulds, have both abandoned the field.

A more positive step is the appointment of an internationally renowned materials scientist as chief executive of the new Engineering and Physical Sciences Research Council. Richard Brook was Cookson Professor of materials science and head of Oxford University's department of materials science. His speciality is engineering ceramics.

Recognition that better materials are the key to higher performance in every sector of engineering has slowly been gaining ground among decision-makers. A report from the the UK government's Advisory Council on Science and Technology (Acost) in 1992, reviewing advanced engineering materials, concluded that "with a few notable exceptions, the UK science and technology base in these materials is weak. The level of R&D is low, and the effort is spread too thinly." Among Acost's recommendations were that the government should consider launching "substantial demonstrator programmes" – particularly in the aerospace and automotive sectors.

Prof Brook believes that, over the past two decades, R&D has yielded "enormous advances" in the properties of engineering ceramics. If harnessed, such advances should translate into lighter engines that can be run at higher temperatures. So far, they have not, and Prof Brook identifies three reasons:

1. Engineering ceramics are still too costly, and although it is believed that economies of scale would cut their costs the question remains: who is to pay for the build-up in scale?
2. The vigour with which established materials – such as superalloys – react to any threat from competing materials; and
3. "The residual distaste of engineers for brittle behaviour", plus the fact that the fracture toughness of ceramic materials can still be a problem for many potential users.

As a result, "research progress has not always brought the rewards that were foreseen," says Prof Brook.

Nevertheless, he identifies another three factors that give him considerable encouragement:

1. An excellent base has now been established for systematic advance. He cites the way the Japanese are using this base as the launchpad for their synergy ceramics R&D programme, a 10-year commitment involving Y100bn.
2. He sees merit in focusing on applications, where ceramics "can deliver a function that simply cannot be provided by other materials," such as the newly-discovered "high-temperature" superconductors, where success would drag other applications along in its wake.
3. Those who have been least successful in their pursuit of advanced ceramic materials have been the loudest critics lately. "The fact remains that a modern industrial nation looking for technological advance will be better placed if it can operate with full competence over the entire portfolio of materials – ceramics, metals and polymers."

AIRPORT DEVELOPMENT

Big spenders await the rush

With world air passenger traffic rising by 5 per cent a year, the current annual passenger total of 1.25bn is expected to double by the early years of the next century.

The air transport industry is gearing itself to meet this growth. Airlines are gradually restructuring to improve their operational and financial performance; manufacturers are building ever-larger aircraft; and airports are increasing their own capacity.

More than 300 substantial airport modernisation and expansion schemes are under way. They include new airports on land reclaimed from the sea, as at Kansai, in Osaka Bay, Japan, and at Chek Lap Kok, off Lantau Island, Hong Kong; the near-£1bn proposed Terminal Five at London's Heathrow; and the comparatively simple but nonetheless vital smaller restructurings, such as the £21m redevelopment at Southampton Eastleigh, also in the UK.

The International Civil Aviation Organisation, the aviation agency of the United Nations, suggests that the cost of all this work is likely to be $240bn over the next 10 years.

But this covers only the direct airport development costs – work being done inside airport boundaries on terminals, runways and associated roads, and items of internal equipment such as information systems, security systems, passenger amenities and fire and rescue equipment.

It does not include the massive associated infrastructure costs outside, which are just as necessary to enable airports to function smoothly. These include road and rail links with adjacent cities (for example, the £300m direct rail link between Paddington station in central London and Heathrow airport), and the big investments needed in air traffic control (ATC) facilities (such as the £350m new en route ATC centre being built at Fareham, Hampshire, by the Civil Aviation Authority for the UK National Air Traffic Services).

If these outlays are also included, overall airport and associated infrastructure costs over the next decade could rise to at least $400bn.

Oris Dunham, director-general of Airports Council International, an independent non-profit body representing more than 420 international airports in 139 countries, points out that keeping up the momentum of airport development will require the co-operation of all elements of the air transport system.

He suggests that there are four principal challenges: finding physical space for the developments; finding the money; political considerations; and increasing environmental concerns.

The first is already serious: breaking out of existing airport boundaries to undertake new terminal or runway development is difficult for many reasons, especially environmental constraints; and most airport authorities find they have to squeeze new terminals out of existing space, meeting the increased pressures by improved operational procedures. This is why some authorities – in Japan, Hong Kong and Macao – have opted for the offshore airport approach, although such solutions are available in few places.

The financial problem is just as difficult. While some of the money can be derived from an airport's own activities – such as the expanding retailing ventures by the British Airports Authority – in many cases, it must come from either governments or the capital markets. An improvement in financial management and operational efficiency by airport authorities can do much to help secure outside investors' funds, without risking counter-productive increases in tariffs for airlines and passengers.

World's top 20 airports

Airport (code)	Passengers handled 1993: Terminal* Number	Terminal* % change	International Number	International % change	Domestic Number	Domestic % change
Chicago O'Hare Int'l (ORD)	65,091,168	1.0	5,899,466	12.9	59,191,702	0.0
Dallas/Fort Worth Int'l (DFW)	49,654,730	–4.4	2,105,427	22.4	47,549,303	–5.4
Los Angeles Int'l (LAX)	47,844,794	1.9	11,945,032	4.3	35,899,762	1.1
Atlanta Hartsfield (ATL)	47,751,000	13.6	2,416,582	8.9	45,334,418	13.9
London Heathrow (LHR)	47,601,733	5.9	40,843,527	6.8	6,758,206	0.6
Tokyo Haneda (HND)	41,507,354	–2.7	747,219	–7.7	40,460,135	–2.6
Denver Stapleton Int'l (DEN)	32,626,956	5.7	259,170	26.7	32,367,786	5.5
San Francisco Int'l (SFO)	32,042,186	0.8	4,608,777	9.4	27,433,409	–0.5
Frankfurt Rhein (FRA)	31,930,903	5.8	25,290,239	6.2	6,640,664	4.3
Miami Int'l (MIA)	28,660,396	8.2	12,373,223	7.5	16,287,173	8.8
New York (JFK)	26,796,036	–3.5	14,821,136	–0.2	11,974,900	–7.2
Newark Int'l (EWR)	25,809,413	6.3	3,412,036	3.2	22,397,377	6.8
Paris Charles de Gaulle (CDG)	25,695,368	3.7	23,336,134	4.0	2,259,232	1.4
Paris Orly (ORY)	25,250,654	1.0	10,075,158	1.5	15,175,496	0.6
Hong Kong (HKG)	24,420,648	10.7	24,420,648	10.7	–	–
Detroit Metro Wayne Cnty (DTW)	24,170,570	5.8	2,025,043	9.1	22,145,527	5.5
Boston Logan Int'l (BOS)	24,038,178	4.6	–	–	–	–
Phoenix Sky Harbour Int'l (PHX)	23,542,372	6.5	107,578	9.8	23,434,794	6.5
Minneapolis/St Paul Int'l (MSP)	23,402,412	2.2	566,184	–	22,836,228	–0.3
Osaka Int'l (OSA)	23,298,583	–0.7	5,225,519	–2.9	18,073,064	0.0

* Sum of terminating passengers and transfer passengers. (Transfer passengers are counted twice, on arrival and on departure from the airport)

Source: Annual Airport Traffic Statistics, The Airports Council International (ACI), Geneva

The political problems stem from governments' need to recognise that the air transport industry is a generator of economic growth, and not to be regarded as a cash-cow for national treasuries and subjected to penal taxation.

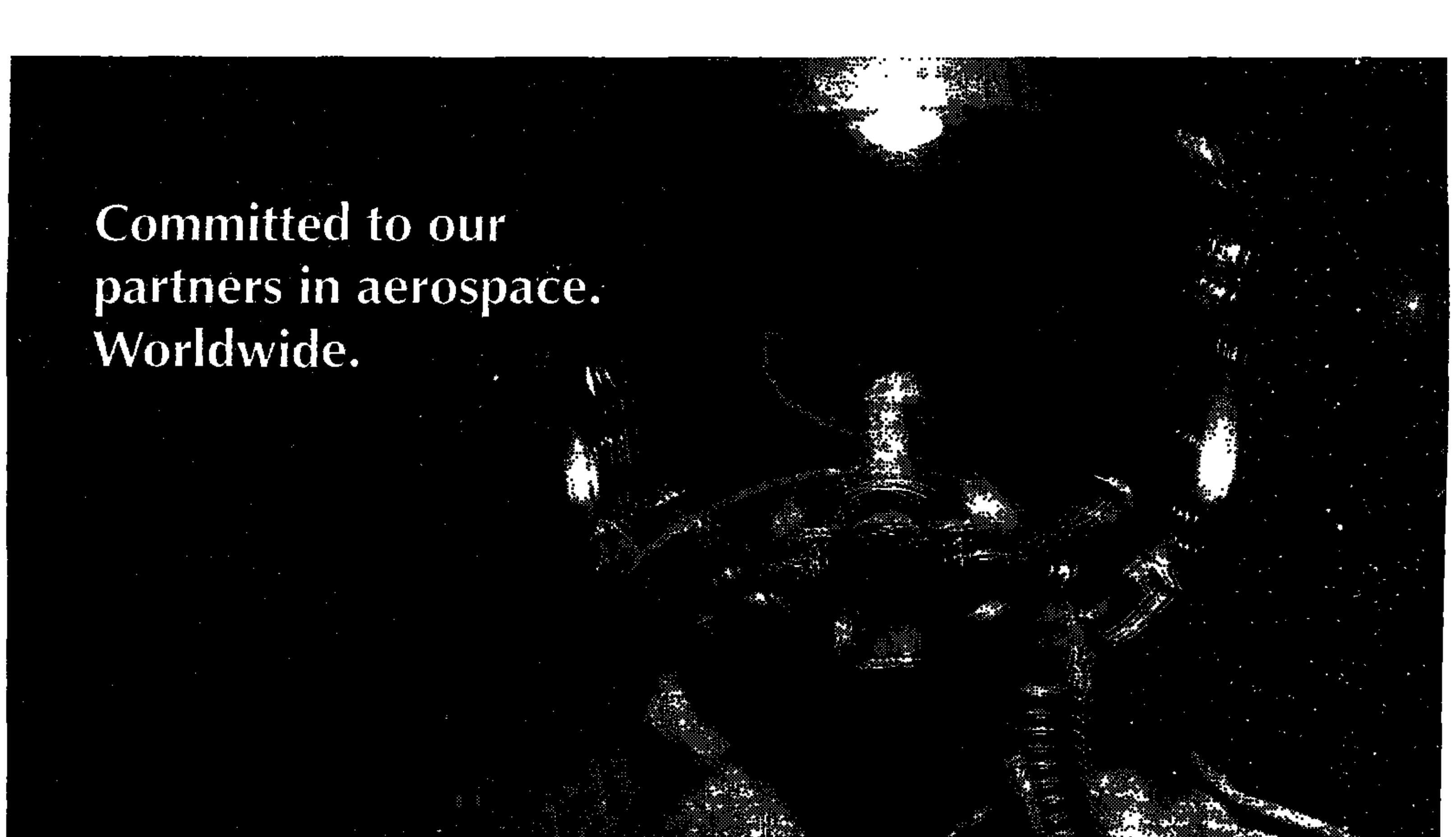
The international Air Transport Action Group, representing airlines, aircraft manufacturers, tourist bodies and other organisations involved in air transport, is already doing much to stimulate governments to do more for aviation. It points out that every 1m passengers passing through an airport generate between 2,500 and 8,000 jobs, (depending upon airport size) and a financial benefit to the local and national economy of between $130m and $1.6bn.

In other words, growth in air transport drives economic progress, and in turn benefits from it. Taxing air transport (such as through passenger departure taxes) can only be acceptable to the industry if the money is fed back into the development of the air transport infrastructure, but not if it is used as just another means of raising revenues for non-aviation purposes.

The environmental challenge is likely to become even more severe. Much has already been done to reduce aircraft noise and emission levels, but it seems likely that more stringent regulations will be imposed in the next few years. It also seems certain that existing night-noise curfews will in most places become more restrictive, so that the burden of an increasing number of flights will have to be met by increased efficiency in handling during daylight.

This will in turn affect other elements of the overall system – with pressure for faster handling of passengers through airports, improved access to airports by road and rail, the use of larger aircraft, and tougher air traffic controls.

Michael Donne



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WORLD MARKETS

The recovery in the US is tentative, says Frank McGurty

Hopes for stability

At the end of July, McDonnell Douglas, the world's largest manufacturer of military aircraft, put its competitors on notice that it had no intention of leaving the commercial end of the business, despite its withering share of a shrinking market.

The St Louis-based company announced that it would offer its customers a new 100-seat passenger jet known as the MD-95, taking the first step towards full-scale production of the short-haul jetliner. By diversifying its civilian product range, McDonnell Douglas hopes to begin reversing a decline that has seen its commercial production rate shrivel by 75 per cent in just three years.

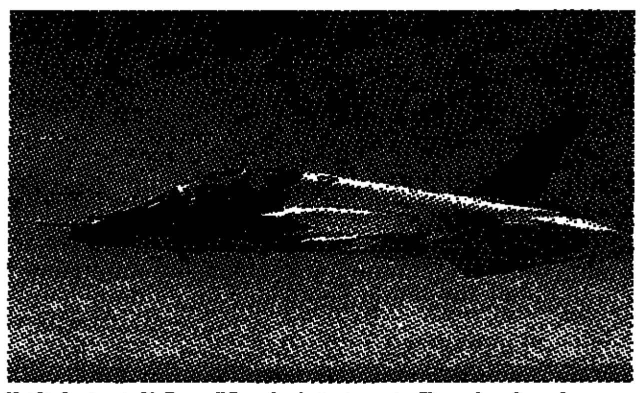
The decision to proceed with the MD-95 is a good illustration of how the US aerospace industry as a whole is struggling to cope with a severe cyclical downturn which began in 1990. Last year, the net rate of orders for all manufacturers – defined as new orders minus cancellations – reached a 20-year low, while the US industry's total workforce sank 32 per cent below its peak of 1.33m, reached in 1989.

In terms of orders, a tentative recovery appears to be under way. In terms of deliveries, the numbers are only now touching bottom. In 1995, production is expected to stabilise at this year's projected level of 465 aircraft – down from 844 three years ago, according to Moody's Investors Service.

Boeing, which still commands a dominant 63 per cent of the commercial market, projects its 1993 deliveries at 260, well below its 1992 level of 442.

McDonnell Douglas, the US aerospace group hardest hit by the contraction, is well aware that it can no longer count on the Pentagon to help offset downcycles on the civilian side.

The easing of international tensions in the 1990s, coupled with stepped-up political pressure to cut the massive US budget deficit, have all but assured that the bounty reaped during the Reagan military build-up will never return.



T-45A Goshawk: McDonnell Douglas is the largest military aircraft producer

Indeed, the Clinton administration has accelerated the timetable for a downsizing process which began at the end of the cold war. It projects the Defense Department's outlays at \$233.7bn in fiscal 1997, nearly 21 per cent lower than the high-water mark reached in fiscal 1989. By contrast, the final Bush projection for fiscal 1997 was a relatively hefty \$273.7bn.

The response of the aerospace industry to this unprecedented challenge is well documented. A wave of market-driven consolidation has swept over the industry since 1991, forcing companies either to seek a leading position in a particular segment through acquisitions, or to sell off their marginal operations to a competitor seeking to do the same.

Some companies, such as Lockheed and Martin Marietta, have become aggressive buyers, while General Dynamics, General Electric and others have sought to limit their exposures to shrinking military allocations.

The latest twist in the industry's reshaping came in April, when Northrop won a month-long bidding war with Martin Marietta to acquire Grumann, a Long Island group specialising in defence electronics. The move, which carried a \$2.17bn price-tag, was seen as a last-ditch effort by Northrop to thwart the possibility of its own takeover.

By and large, defence contractors assured their continued profitability by reshuffling the business portfolios. McDonnell Douglas, which has stayed out of the fray, is an exception. Still, its defence business remains on solid footing. The division, which makes the F/A-18 and F-15 fighter jets, as well as the controversial C-17 transport, recently posted record operating earnings for the three months to the end of June.

On the commercial side, its position is decidedly more precarious, with production plunging to 48 aircraft last year, from 169 in 1991. Prudent cost-cutting has enabled the business to remain marginally profitable, however.

The announcement of a \$2bn order from Saudia, the state-run carrier of Saudia Arabia, this spring was timely. Its factories at Long Beach, California, are steadily whittling down the backlog of unfilled orders for its larger three-engine MD-11 jetliner and modern versions of its venerable DC-9. (The lion's share of the Saudi order – 46 aircraft worth \$4bn – went to Boeing.)

The new MC-95 is a variant which fits into a crucial market niche. With US carriers emulating the success of Southwest Airlines and other profitable operators, many of them are likely to scrap their hub-and-spoke flight networks in favour of point-to-point flying. It is a strategy sure to accelerate orders of smaller aircraft, with 100 seats or less.

The conundrum facing McDonnell, however, is that the market has been flooded with new aircraft over the past five years, at a time when world air capacity has expanded twice as fast as traffic. The result is a huge stockpile of used aircraft waiting to be put back into service when demand picks up. To make matters worse, air traffic is expected to recover more slowly than in past cycles, with slow economic growth forecast for the late 1990s.

As a consequence, Moody's expects a 22 per cent increase in annual aircraft deliveries from 1993 to 2002. Though that level of growth appears to be sufficient, an unprecedented number of aircraft programs will compete for a piece of the pie.

The most promising – and most risky – of these programmes is Boeing's B-777, the largest twin-engine airplane ever built. The 400-seat wide-body, which cost \$4.5bn to develop, is scheduled to begin commercial flights next May.

"The question is, will everything go as planned," says Mr Jack Modzelewski, an analyst with PaineWebber, the New York securities house. "If the planes don't ship, Boeing may have a few billion dollars worth of inventories stacking up very fast."

About 145 of the flying behemoths, at \$135m each, are already on the order books, but the Seattle aerospace giant needs twice as many to recoup its investment. To encourage demand, Boeing has requested US regulators to allow the aircraft, which initially will have a range of 4,600 miles, to fly over the oceans immediately, without the normal trial period over land. The waiver has raised heated opposition.

The world's biggest aerospace group can ill afford a setback. Net income in the second quarter was down 48 per cent from the 1993 period, and would have come in lower if not for an unexpected tax break. For the year, revenues are expected to reach \$21bn, about a third of the 1992 level. Mr Modzelewski, among others, doubts whether its annual orders will return to the 400-plane level before the turn of the century.

Fare wars blight the scene for airlines in the US, says Richard Tomkins

Unprecedented turmoil

More than 15 years have passed since deregulation opened the skies above the US to the unrestrained forces of enterprise and competition. By now, the airline industry should have settled down into some kind of equilibrium. Instead, it is in unprecedented turmoil.

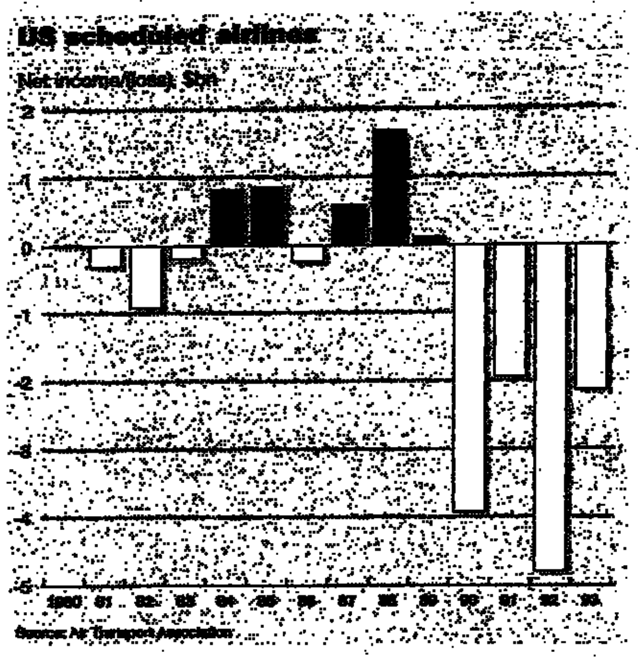
Barely a week passes without news of another fare war breaking out, an airline delivering a warning of impending losses, or thousands of jobs being cut. In the past four years, the US airline industry has lost nearly \$13bn – more than all the money it has ever made since the invention of powered flight.

So what has gone wrong? It is not as though the airlines are short of passengers: last year the number of people carried by US airlines on domestic and international flights rose by 2.6 per cent to a record 487.2m. The trouble is, the big airlines cannot charge a fare high enough to carry them at a profit – and that is because a new breed of low-cost airlines has emerged.

Competition from upstart operators is nothing new to the US. When air deregulation came in 1978, many entrepreneurs thought they saw an opportunity to make a profit by starting new services or undercutting fares on existing routes. But almost as many were wrong: as the big carriers fought back and the competition intensified, scores of airlines went bankrupt, most of them small.

The economic boom of the late 1980s brought respite for the industry, but it was not to last. With the onset of the Gulf War at the beginning of 1991, passenger demand sagged, and airlines were burdened with surplus capacity. This provided entrepreneurs with an opportunity to pick up assets and staff on the cheap and make another onslaught on the established carriers.

This time, however, the entrepreneurs were better prepared. For one thing, they had learned from the mistakes of their predecessors; for another, many were experienced airline employees pensioned off by the big carriers. Still more important, they had a successful model from which to work – that of Southwest Airlines, the phenomenally successful Texas-based carrier.



Source: Air Transport Association

Today, Southwest is by far the most profitable airline in the US and the one that all carriers, big and small, seek to emulate. It succeeds because its costs are so much lower than those of the established airlines. The result is that it can charge permanently low fares on every flight and win more passengers – not just from other airlines, but by encouraging people to fly instead of driving, and by generating demand for travel that would not otherwise exist.

How does Southwest do it? Unlike the big airlines with their hub-and-spoke operations, Southwest specialises in short-haul, point-to-point services with frequent flights and fast turnarounds that make intensive use of its staff and aircraft. Its hard-working and enthusiastic employees are much more flexible than those working for the big carriers: flight attendants, for example, clean the passenger cabin while people disembark. And there are few frills: accommodation is all economy class, there are no pre-assigned seats, and the in-flight meal is a soft drink and a bag of nuts.

Translated into financial terms, the result is that Southwest, and airlines like it, have operating costs of little more than 7 cents per available seat mile, while the big carriers have operating costs averaging rather more than 9 cents a seat mile – nearly 30 per cent higher. So when the big carriers have to lower fares to compete with smaller carriers muscling in on their routes, they lose money.

Faced with the certainty that the small carriers are not going to go away, the big carriers have been left with no choice but to bring their own cost structures down. The effect has been a rash of radical restructurings.

Perhaps the most spectacular is the one now being implemented by United Airlines, the biggest US carrier. In July, its shareholders voted to accept a plan thrashed out by its management and workforce under which employees will be given a 55 per cent controlling stake in the airline in exchange for wage cuts and changes in working practices worth \$4.9bn to the company over the next 12 years.

United is not the only big US airline to have offered employees a stake in the company in return for labour concessions. Northwest Airlines narrowly avoided bankruptcy in the middle of last year by persuading employees to yield \$886m worth of concessions over three years in return for 33 per cent of its equity (now 26 per cent following a stock offering in March). And last year Trans World Airlines emerged from bankruptcy after trading 45 per cent of its shares for \$660m worth of employee concessions over three years.

The advantage of employee buy-outs like these is that, in heavily unionised airlines, they produce labour savings without the strife that might accompany swingeing job cuts. The largely non-union Delta Air Lines, however, has adopted a different strategy: in April it announced that it was cutting up to 15,000 jobs from its world-wide workforce of 73,000 as part of a plan to cut \$2bn a year from operating costs by mid-1997.

Soon after Delta's announcement, USAir announced that it was seeking to cut costs by \$1bn a year over the next three years, with half the costs coming from efficiency improvements and the other half coming out of labour costs. USAir, however, is unionised, and it is still in talks with its unions about how the labour cost savings are to be achieved.

Meanwhile, Continental Airlines, which last year emerged from its second bankruptcy with a largely non-union workforce, has reacted to the competition by setting up its own low-cost, low-fare operation – nicknamed CALite within the industry. United, with its new cost structure now in place, is planning to do the same with the launch of United Shuttle next month.

If one thing is certain about these changes, it is that they not over yet. Indeed, it seems probable that worse is to come. The big carriers cannot continue indefinitely to absorb the losses they are suffering in the fare wars afflicting the market. As the competitive pressures intensify, only those that succeed in adapting to the low-cost environment will survive.

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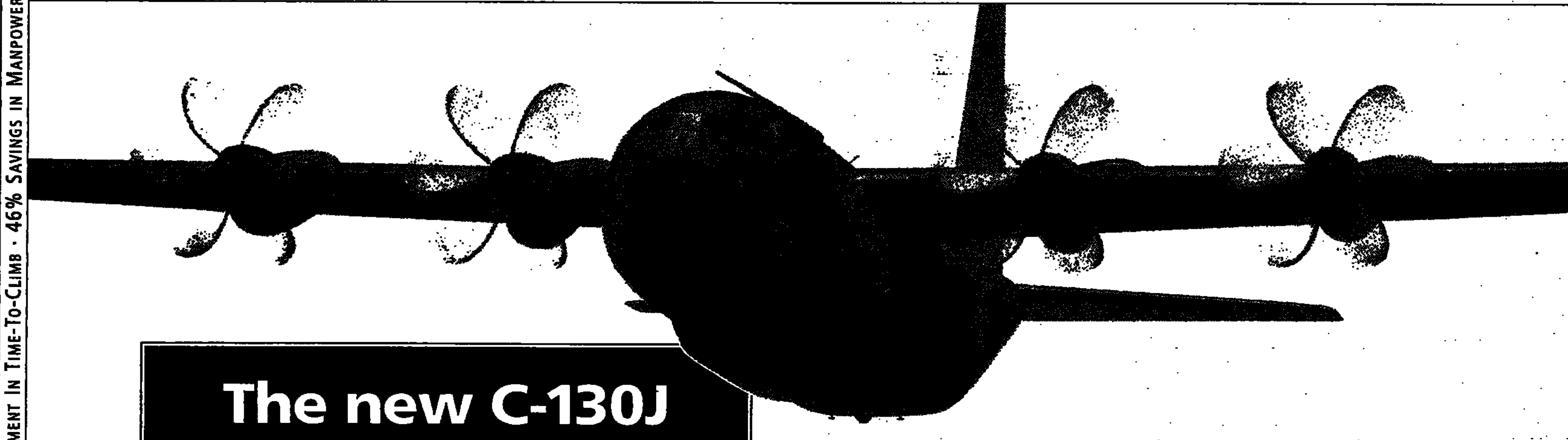

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Japan: **Michiyo Nakamoto** explains the importance of the YSX project

Taking the partnership route

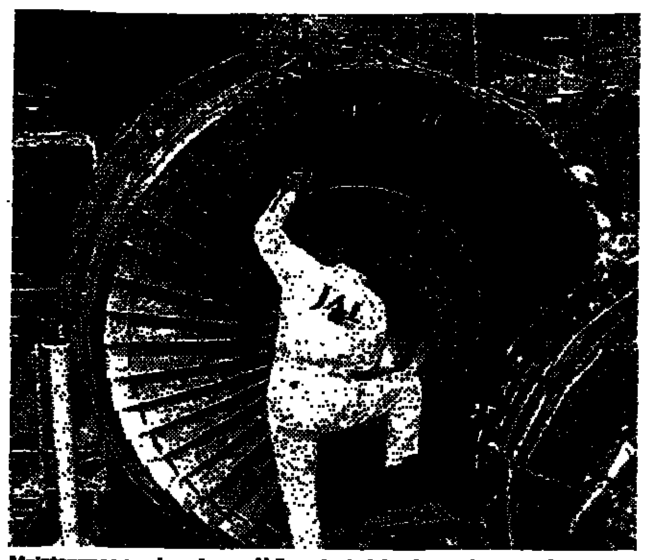
Officials, researchers and financiers of the Japanese aerospace industry were today gathering for a meeting that has become an annual ceremony – to discuss whether the country should once again seek a place in the world commercial aircraft industry.

At issue will be a plan to build a small passenger aeroplane, the YSX, which the industry and its guardians at Miti – the ministry of international trade and industry – have been nurturing for the past five years. Although still just a vision in the eyes of planners and manufacturers, the YSX has already caught the Japanese public's imagination.

The interest shown in the aircraft is understandable, given the traditional Japanese fondness for national projects and symbols of industrial might. But the YSX is not just a symbol of Japan's resolve to establish its credibility within the industry. It is the third attempt by some of the country's most highly regarded manufacturers to build and market an aircraft on a commercial basis; and the stakes are high.

For the bureaucrats at Miti who are backing the project, it is not just a question of pride, although that, too, is important. Unlike some of the more shining examples of Japan's manufacturing prowess, the aerospace industry, despite good intentions and recognised skills, has been something of a blemish on the country's industrial record.

The ministry, more famous for its successes in industrial planning than its failures, is expected to increase the amount of money available to the project next year to Y1.1bn, which will cover the costs of a feasibility study that has been carried out since 1989. The increase, from Y550m this year, at a time when government coffers have been reduced by one of the longest recessions since the war, represents a strengthened commitment to a project that could lose millions and create another blemish on its record.



Maintenance work: a Japan Airlines technician inspects an engine

For the five leading Japanese aerospace manufacturers participating in the YSX programme, the risks are also daunting.

"The initial development costs for commercial aircraft are extremely high, and it takes about 10 years to make profits, so we have to be cautious," emphasises Mr Yutaka Hineno, general manager of MHI's aerospace and special vehicle headquarters. "It is not going to be easy."

In the past, the industry has had little joy in its attempts to develop and market commercial aircraft. The only two designed and built in Japan – a 64-seat twin-propeller airliner called the YS-11 and a short take-off and landing plane called Asuka – have been embarrassing commercial failures.

Manufacturers, however, claim that it is not for lack of technical ability that the industry has lagged behind those in the US and Europe. Japanese technical capabilities have been tested through the substantial amount of subcontracting work they have done for Boeing and McDonnell Douglas, and on joint development projects with Boeing, such as the 777 and 767.

The latter, in particular, provided Japanese companies with experience in building the aircraft's body. "At first, Japanese companies did not have any speciality, but after the Boeing 767, Japanese companies are probably good at body work," claims Mr Hineno.

He believes that the real stumbling blocks to the growth of Japan's aerospace industry have been a domestic market that is too small to support a leading industry, and the ban on Japanese exports of defence products.

But additionally, there is the bitter truth which the YS-11 fiasco – it went out of production in 1972 after 12 years, because it was unprofitable – taught both the industry and Miti: the Japanese industry lacks the marketing expertise and the credibility needed to sell commercial aircraft globally.

Although the YS-11 was actually respected as an aircraft, industry officials explain, nobody was willing to take the risk of buying expensive planes from Japanese manufacturers, which had no established record.

To avoid the same mistake, the industry and Miti have consented to have a western partner on their next endeavour, the YSX. "We have to team up with an established partner, like Boeing or Airbus, to sell the plane, because we don't have the marketing ability and need to provide after-sales services," concedes Mr Hineno.

The latest indications are that the preferred partner is Boeing, with which the Japanese aerospace industry has a long relationship. But the question facing the industry then would be whether it could shed the junior-partner role it has always been relegated to in its dealings with the US company.

The inability of Japanese aerospace companies to win more than medium-technology work from Boeing – such as wing-flaps – has earned the industry a reputation as a permanent subcontractor to the US company. An attempt was made to play a more prominent role in the development of Boeing's 777 jet by taking a 21 per cent stake in the project. However, even MHI, the leading Japanese company in the industry, admits that there is a long way to go before the industry can claim partnership with Boeing.

"We see it as joint development, but others say it is subcontracting," concedes Mr Hineno. "Japanese companies will only be able to increase their share of a project by improving their labour capabilities, facilities and technology."

For example, Boeing has always kept work on the main wings largely to itself. Wing work needs large-scale manufacturing capacity, which does not exist in Japan, he explains.

Even if the Japanese industry manages to take the lead in a commercial venture, it is likely to face fierce competition on the global market, where there are several other projects to develop a small passenger jet.

For the industry, and for Miti, there are few options. "The project is unlikely to go ahead if it appears that it won't be profitable," says an official at the ministry.

Yet the country's defence budget, where the industry derives 75 per cent of sales, is shrinking; and industry and government agree that aerospace manufacturing must be retained for the technological skills that it generates for a variety of industries.

CHINA

Anxiety over safety record

When a Russian-built Tupolev aircraft, of China Northwest Airlines, crashed near the historic city of Xian in June, it was not only China's worst air disaster, it also coincided with festering doubts about Beijing's ability to manage its flourishing aviation sector.

An appalling safety record – more than 500 people have died in air crashes since 1992 – had turned the spotlight on lax safety standards, poor maintenance, sloppy cabin service and virtually non-existent airport security. In the past year or so, there have been no fewer than a dozen hijackings to Taiwan of Chinese airliners.

Since the appointment late last year of Mr Chen Guangyi as head of the Civil Aviation Administration of China (CAAC), the country's aviation regulatory arm, efforts have intensified to improve safety; but foreign airline representatives say that China has a long way to go before it can hope to match international standards.

China's aviation sector simply has grown too fast for available resources: pilot training, for example, is lagging well behind demand. Among the most critical problems is a lack of experienced pilots.

China is moving to redress the problem, in co-operation with foreign airlines such as Lufthansa which has agreed to train Chinese pilots at its facility in Phoenix, Arizona; but demand is such that it will take years to provide an adequate supply of pilots.

Growth figures for the aviation sector are staggering. Passenger numbers are rising at an average of 20 per cent annually, and this is expected to continue for the next few years; although a credit squeeze slowed the increase last year to 16.8 per cent from 33 per cent the year before.

Projected Chinese purchases of passenger aircraft should be enough to keep Airbus Industries and Boeing in business well into next century. In a study, for an Air Finance conference Chase Manhattan Bank predicts China's passenger fleet of 350 aircraft will increase fivefold by 2010. This would require the purchase of 1,200 new aircraft worth US$90bn.

Chase's prediction compares with less optimistic forecasts by, among others, Boeing which predicts purchases of 800 aircraft and expenditure of U$40bn. Airbus expects China to purchase 620 new aircraft in the next 15 years.

Regardless of who is correct, numbers of aircraft and amounts of money involved are colossal. Growth in the civil aviation fleet since China began opening to the world in the late 1970s has been spectacular. In 1974, China had just 12 passenger aircraft, compared with the 350 today.

Boeing, followed by Airbus and McDonnell Douglas, have been the chief beneficiaries. Boeing delivered 46 airliners to China last year – 14 per cent of its production.This year, it expects to deliver 36, or 14 per cent of a lower production. Negotiations are also well advanced for the purchase of a further 50 Boeings, including the new 777 two-engined widebody, at a cost of about U$5bn.

Airbus, too, is making a stronger showing in the China market. The European consortium secured orders last year worth U$1.2bn. Three airlines – China Eastern in Shanghai, China Northwest in Xian and China Northern in Shenyang – are now operating Airbus.

Other suppliers of aviation equipment are also benefiting from China's aviation expansion. Rolls-Royce, for example, is supplying 42 of its RB211-535 engines for Boeing 757s on order by Chinese airlines and is expecting further orders.

While China is spending billions of dollars on the purchase of new top-of-the-range aircraft, it is far from maximising returns on investment. The Chase Manhattan study reported that China's average aircraft utilisation rate was 5.2 hours a day in 1992, up from 4.7 the year before. This compares with 11 for Singapore Airlines.

Among factors curtailing utilisation is the primitive state of Chinese infrastructure, including airports and air traffic control systems. Only 40 of China's airports have instrument-landing systems, which means that bad weather often causes delays, and thus disruption to the entire network.

A striking feature has been the proliferation of new regional operators. China now has more than 30 airlines. This regionalisation of the aviation sector has placed a huge burden on CAAC's overstretched regulatory abilities. On the other hand, the growth of regional carriers has added a dynamic to the sector which would not have been possible if the CAAC monopoly had been maintained.

The regional airlines are also spreading their wings beyond China, opening routes to international destinations such as Singapore and Thailand. Several are seeking capital abroad, to fund ambitious expansion plans. China Southern, based in Guangzhou, and China Eastern are among 22 Chinese companies approved for listing on overseas stock markets.

In its efforts to secure expertise and capital, China recently announced it was opening its airline industry to foreign investment, though foreign involvement in a mainland airline would be restricted to 35 per cent with voting rights capped at 25 per cent.

Foreign investors were also being urged to invest in airport facilities such as terminals, ground-handling and aircraft maintenance. Indeed, foreign carriers are already becoming more involved.

British Airways recently formed a joint engineering venture with China Southern; Lufthansa has a joint venture maintenance facility in Beijing with Air China; and Singapore Airlines has concluded a joint-venture agreement with the Beijing Airport Authority for inflight kitchen services and ground handling facilities.

China's aviation sector is in flux, and the learning curve is proving to be steep.

Tony Walker

Russia: morale is low and the outlook bleak, writes **Leyla Boulton**

The pains of privatisation

After a difficult year of adjustment to market economics, the future looks bleak for Russia's aerospace and airline industries.

Despite having some of the best design capacity in the world, manufacturers are finding it difficult to raise the finance they need to produce and sell aircraft in world markets. The once-monolithic Russian airline industry, having split up into some 300 mini-carriers, has been hit by two serious accidents, which have dented already shaky international confidence in it.

After prolonged indecision over the future of Russian International Airlines – the international rump of the former monopoly, which continues to use the Aeroflot name – the government decided in June to sell 49 per cent to the airline's employees.

In this first stage of privatisation, employees will be barred for an unspecified period from re-selling their stock, which they will be offered at a discount. The government does not plan to sell off any of its remaining 51 per cent stake for at least three years.

"In the next stage, I think conditions for foreign capital to invest will be created," Mr Igor Desyatnichenko, deputy director for finance, was quoted as saying in a recent interview. In the meantime, the government has promised to give the dividends of its 51 per cent stake to the airline, to help it acquire new aircraft.

But a question-mark remains over whether it will remain a single airline, following the decision to allow four of its subsidiaries the option of breaking away as separate companies. This decision coincided with a change of chairman at Russian International Airlines, with the replacement of Mr Vladimir Potapov, who had struggled to keep the airline whole, by one of his deputies, Mr Vladimir Tikhonov.

The declared purpose of privatisation is to make the industry more efficient. But the collapse of the Soviet Union, in December 1991, only complicated its adjustment to market reforms launched just over two years ago. Newly-independent republics, as well as restless regions and even cities, seized control of locally-based fleets. But despite the lifting of controls on ticket prices, as part of the reforms, most of the so-called "baby Aeroflots" lack the muscle and expertise to achieve international standards and re-equip ageing fleets.

In January, a Tupolev aircraft operated by a tiny Siberian offshoot of the former Aeroflot crashed en route from the Siberian city of Irkutsk to Moscow, killing all 120 people on board. Morale and discipline have also suffered across the board. In March, 75 people died when an Airbus leased by Russian International Airlines crashed on a flight from Moscow to Hong Kong. Unofficial reports released at the time suggested that the pilot had been teaching his children how to fly. But publication of the results of an official inquiry have been postponed several times, fuelling suspicions of an attempted cover-up.

A bright spot amid the chaos is the development of a few privately-funded airlines, such as Transaero, which offers western-style service at a small premium to that of its state-owned rivals.

Pending state-owned airlines' inevitable restructuring as bigger companies, the government this spring made a start with privatisation when it auctioned part of Vnukovo Airlines, based at Moscow's domestic Vnukovo airport.

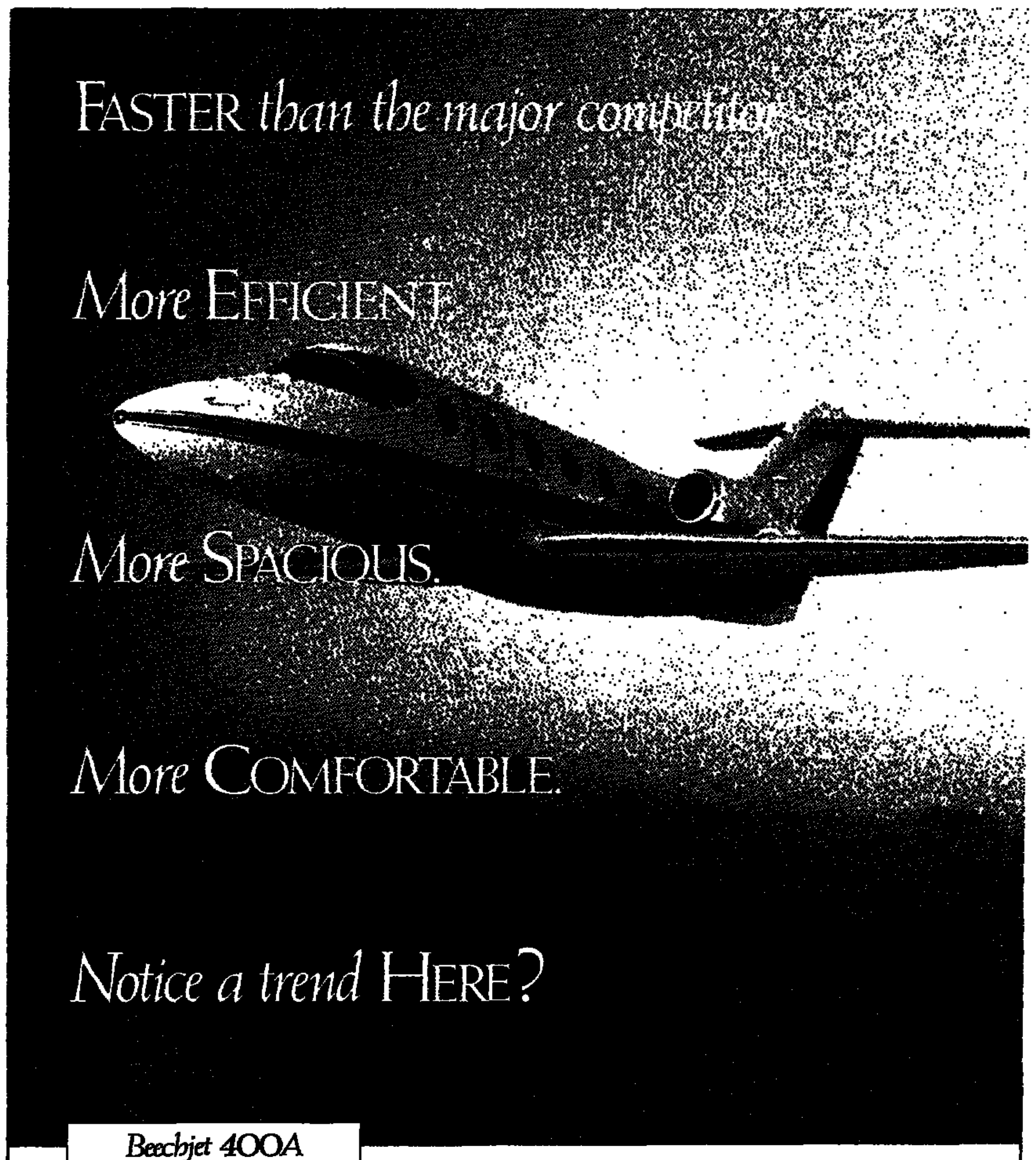
Until July 1, privatisation of state-owned assets had been conducted through the free distribution of vouchers to the population. However, future privatisation, including that of Russian International Airlines, will be for cash only, with 51 per cent of the proceeds due to be ploughed back into companies.

Lack of finance to re-equip fleets is the main problem facing Russian airlines, and is likely to remain so even after privatisation. It is also an obstacle for aircraft manufacturers, which were previously run and financed by the state.

Even those airlines which have some money are finding it easier to lease or buy western aircraft, because of the favourable financing terms offered by western manufacturers. A cash-strapped government has yet to implement a long-promised industrial policy of selective support for its most promising industries, such as airframe manufacturing.

In the meantime, two engine-manufacturers have teamed up with two leading Russian aircraft manufacturers in an attempt to mass-produce Russian aircraft with western engines and avionics. The most advanced project is an alliance between Russia's Ilyushin and Pratt & Whitney of the US. Their long-haul Il-96-M aircraft is currently undergoing tests for certification in Russia and the west. A similar aircraft, with Russian engines, the Il-96-300, is already being operated by Russian International Airlines on routes to the US.

A separate alliance, between Russia's Tupolev, and Rolls-Royce of the UK, wants to produce the medium-haul Tu-204 with western engines and avionics. But it is still said to be seeking finance for certification procedures. According to Mr John Sharman, executive director of Spectrum Capital, the UK venture capital company, the Russian authorities have approached the British government for help in raising $20m for this purpose, on the grounds that this will help Rolls-Royce to sell engines.



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CAPITAL REGISTRY INCORPORATED

The UK's position as a global participant is at risk, says **Paul Betts**

Industry seeks political help

UK aerospace industry is pressing the government to adopt a new strategic initiative, to guarantee the future of the industry at a time when it is continuing to lose market share.

Although companies have continued to restructure and consolidate their operations through partnerships and alliances with international groups, they warn that the sector's future will depend on a political consensus around a clearly stated public policy of support for the industry.

In a written submission to the House of Commons trade and industry select committee, the Society of British Aerospace Companies (SBAC), the trade association grouping more than 200 UK aerospace companies, said that the government, in addition to providing a stable long-term investment climate, needed to develop with the industry "a national technological strategy to make greater progress in maximising the efficient use of investment resources from private and public sources."

The call for greater government commitment comes at a time when UK aerospace companies are continuing to face the effects of the prolonged recession in the civil aircraft business and the decline in government defence following the end of the cold war.

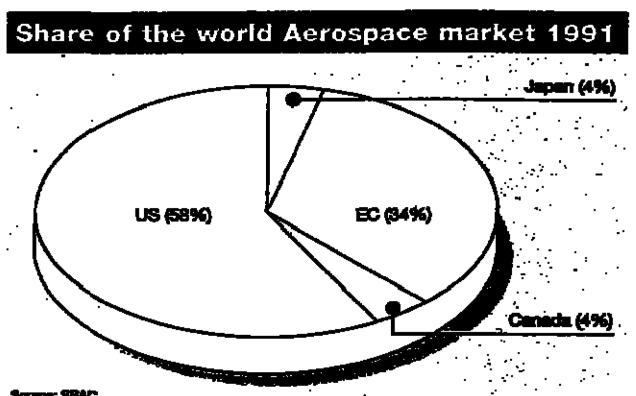
Until recently, the UK aerospace industry was second only in size to that of the US among western economies. But after peaking in 1990, its annual turnover has declined from £11.7bn four years ago to around £10.4bn. The impact of lower defence budgets has led to a marked change in the civil-military split, with civil activities now accounting for around 50 per cent of total annual turnover compared with only 25 per cent in 1980. Over the past 12 years, restructuring has led to a decline in employment, from nearly 230,000 people in 1980 to fewer than 150,000 last year.

Other aerospace industries in Europe have fared better than the UK in terms of government support. By 1990, the annual turnover of the French industry had begun to match the UK, with France maintaining a stronger level of defence spending as well as adopting an active policy of backing what it considers a strategic industrial sector. The German industry has enjoyed even greater government support.

Fierce competitive pressures, coupled with the growing costs of research and product development, have forced the UK industry – which is still second to chemicals in the UK trade balance league, exporting about 70 per cent of its turnover – to step up efforts to rationalise by forging new international partnerships, as well as shedding certain assets to focus on core activities.

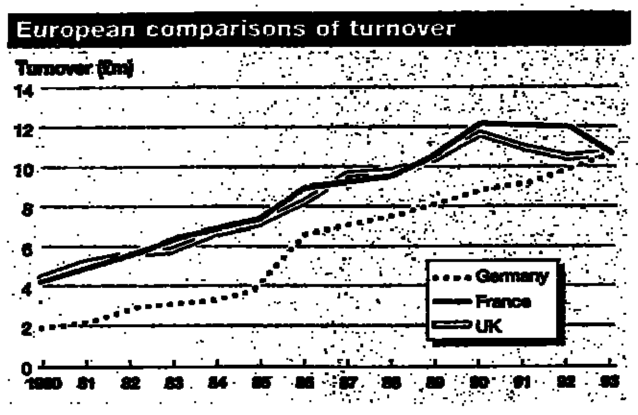
British Aerospace (BAe) has pursued its vigorous rationalisation and recovery strategy of returning the company to its basic defence and civil aerospace businesses. On the civil side, BAe is continuing to seek international partnerships for both its turbopropeller and regional jet operations.

Share of the world Aerospace market 1991



Source: SBAC

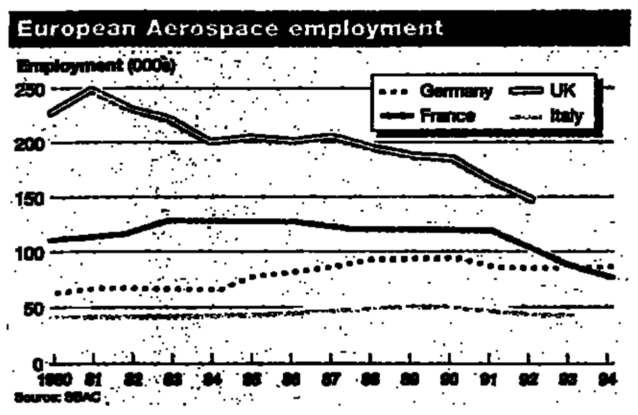
European comparisons of turnover



After failing to form a joint regional jet venture with Taiwan last year, the UK group has pinned its hopes on forming a regional jet alliance with Fokker,the Dutch manufacturer now controlled by Deutsche Aerospace of Germany. In the turbopropeller sector, BAe has also had lengthy discussions with the Franco-Italian ATR consortium.

Rationalisation has also been intensified in BAe's space and missiles businesses. The UK company has agreed to sell its space systems division to Matra-Marconi, a joint venture between the French Matra company and the UK General Electric Company. BAe has also been negotiating with Matra to merge their respective guided weapons activities.

European Aerospace employment



Source: SBAC

BAe's core defence aerospace operations continue to be the company's main profit centre, on the back of the group's lucrative relationship with Saudi Arabia and the strong export performance of its Hawk fighter-trainer aircraft. BAe also expects its 20 per cent stake in the European Airbus civil aircraft consortium to reap long-term dividends.

But for BAe much will hinge in the future on the controversial Eurofighter 2000 programme, as well as on the company's involvement in the Future Large Aircraft (FLA) project, a European collaborative venture to build a new military transport aircraft. The UK has maintained its strong commitment to Eurofighter, although the programme for the new advanced fighter has been dogged by controversy in Germany.

While there is broad consensus in the UK over Eurofighter, the FLA project has created deep divisions both within the government and the industry. The issue centres on whether Britain should buy the new US Lockheed Hercules C-130J or the European FLA to replace the Royal Air Force's ageing transport fleet.

The Lockheed camp has argued that its aircraft will be ready to meet the RAF's needs by 1996, while the FLA still faces uncertain development costs and will not be available until the next century. Lockheed has also said that UK participation in the programme will be worth £2.2bn and secure 3,500 jobs in Britain.

But BAe and its supporters have warned that the stakes are high, and that the consequences would be dire if the UK did not participate in the European FLA project. BAe has warned that its lead in wing design and production in Europe might be lost to Germany and France if it did not participate in the FLA programme. There could also be serious implications over BAe's role in Airbus, since the FLA could be built by the European civil aircraft consortium extending its activities into the military sector.

In the UK aero-engine industry, the big challenge for Rolls-Royce is the development of its high-thrust Trent family of engines to power the new generation of large widebody airliners, which are expected to account for an increasingly large share of the total aircraft market during the next 20 years. While the Trent programme has been a technical success, the problem for Rolls-Royce is that it has had to continue investing heavily in the development of its new high-thrust engines at the same time as rationalising the company in the face of the industry's downturn and the increasingly tough competition from its two US rivals, General Electric and Pratt & Whitney.

Rationalisation has also been a main feature of the UK aerospace components sector. Lucas has been restructuring its US aerospace operations, while expanding through joint ventures in the fast growing Asia Pacific market. TI has absorbed Dowty, which in turn has forged an Anglo French aircraft landing gear joint venture with Messier Bugatti.

Overall, however, the UK aerospace industry warns that rationalisation, greater international collaboration and significant productivity improvements cannot alone guarantee the sector's long-term future.

Unless the government is prepared to match the support in R&D in new aerospace technologies and materials given by other countries to their industries, as well as more active export backing, there is a growing danger that the UK may see its position as a leading global aerospace participant severely undermined.

As the SBAC put it to the House of Commons select committee: "Failure to sustain adequate R&D investment to counter international competition could mean an inevitable erosion of UK capability – and once lost, the industry's leading position could not be regained."

France: Taiwan's order for 60 Mirage jets provides momentary relief

Hopes for a break in the clouds

The French aerospace industry, which has been hit by falling orders during the past three years, hopes that by 1995-96 turnover will begin to improve.

Some comfort was provided by Taiwan's 1992 order for 60 of Dassault's Mirage jets and 1,500 of Matra's Mica missiles. But, in general terms, the Taiwan contract provided only momentary relief, with new aerospace orders booked last year amounting to only FFr90bn, 19 per cent down on the Taiwan-inflated figure of 1992 though only 4 per cent down on the 1991 level of new orders.

Turnover fell last year by 8.5 per cent to FFr110bn, ($21bn) with the brunt felt in the aero-engine sector (down 12.5 per cent) and by aircraft and missile makers (down 9.6 per cent), while avionics and equipment manufacturers escaped relatively lightly (down 4.2 per cent). Almost all companies are cutting back their work forces, or, as in the case of Airbus, putting them on short-time working. Serge Dassault, president of the group that bears his name and head of Gifas, the industry association, estimates French aerospace will have lost 15,000 jobs over 1992-95.

In profit until 1991, the French aerospace sector has, overall, been in the red since then. The biggest money losers are state-owned: Aérospatiale, which cut its 1993 loss to FFr1.42bn (from FFr2.38bn a year earlier) but has this year had to get a FFr2bn capital injection from the government to help reduce its debt and fund promotion of its new A340 series; Snecma, the aero-engine maker whose 1993 loss increased slightly compared with 1992 to FFr804m on sharply lower turnover; and Thomson-CSF, the defence electronics specialist. The latter, in fact, made an operating profit of around FFr1bn, which was wiped out by its unfortunate stake in Crédit Lyonnais that required it to assume losses and bad debt provisions of FFr3bn.

All three companies are slated for privatisation, but the sale of Aérospatiale and Snecma is some time off. By contrast, private sector companies, like Matra (part of the Lagardère group) and Dassault have fared better, partly because of Taiwan contracts.

Bernard Nicolas, Gifas' secretary-general, estimates that this year will see a similar 8.5 per cent decline in French aerospace turnover, but also a pick-up in export orders, especially for Airbus and perhaps through possible missile sales to Sweden and helicopter sales to the UK. But he feels the French government does not always act in the best interests of its defence industry. In particular, he is critical of the promise France gave China not to sell any more offensive weapons to Taiwan. While this may have opened the door to the Chinese market to French civil contractors, he says salesmen for companies involved in the Taiwan sale still cannot get visas to visit China.

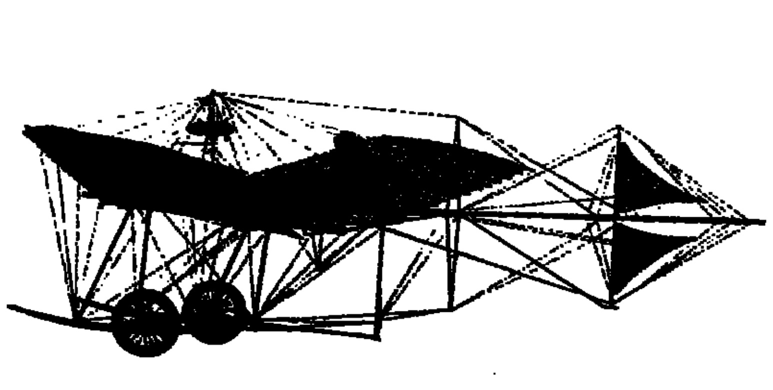
The French aerospace industry, at least, benefits from the fact that France is virtually the only country in the west or east which, far from awarding itself a peace dividend on the end of the Cold War, has decided to maintain defence spending in real terms. The government's military framework law for 1995-2000 sets a 0.5 per cent real increase in defence equipment spending for the first three years, and possibly more thereafter, depending on how the economy performs. And this starts from a 1994 base of FFr100.4bn, which is higher than in the UK or Germany.

But Mr Nicolas notes that the Balladur government has resorted to a habit of the previous socialist government by "freezing" FFr2.5bn of the 1994 equipment budget. The Gifas director also complains that the civil aviation portion of the 1994 budget only includes money for "re-imbursable advances" for existing programmes, not for new ones planned by Aérospatiale and Dassault. France, however, remains a firm believer in this "transparent" form of direct aerospace subsidy, and from the bogged-down talks with the US, it would like to see emerging an extension of the 1992 US-European Union agreement to cover not just airframes, but also aero engines and equipment.

Space accounts for about 15 per cent of French aerospace turnover, but its business fell last year by nearly 6 per cent. However, Matra-Marconi Space, the Anglo-French joint venture, has just boosted its capability by buying British Aerospace's space business.

Despite recurrent rumours of national mergers, of the kind that produced BAe or Deutsche Aerospace (Dasa), French companies have instead sought to cope with their industry's present crisis by reaching out to foreign partners. Aérospatiale is negotiating with Dasa to create in missiles the sort of joint venture they already have in helicopters; Thomson-CSF has recently capped its large number of joint ventures and acquisitions with the UK by announcing two joint ventures with Dasa on "smart" munitions and missile propulsion; and Matra is on the verge of completing its long negotiations for a joint venture with BAe on missiles.

David Buchan



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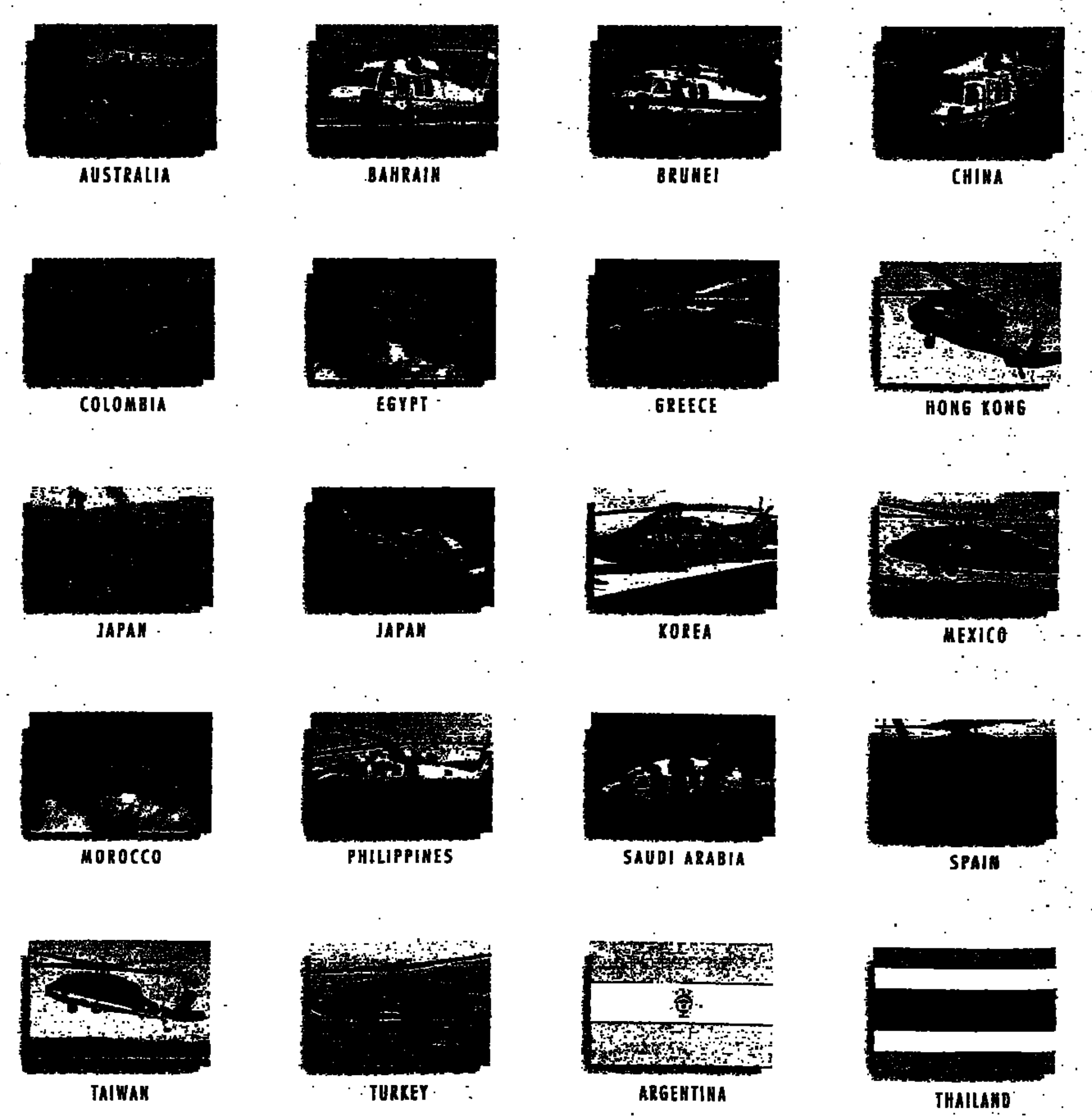

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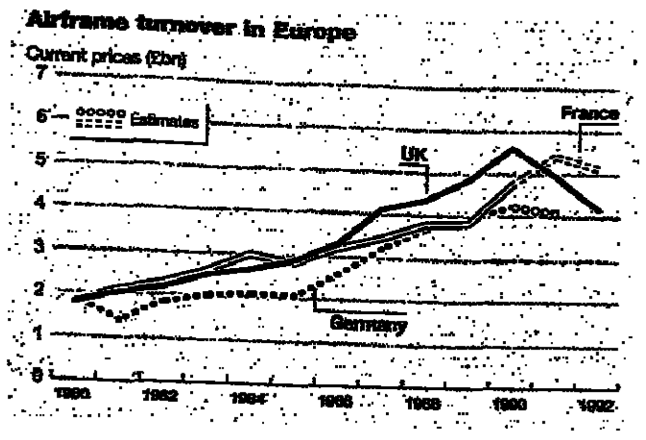
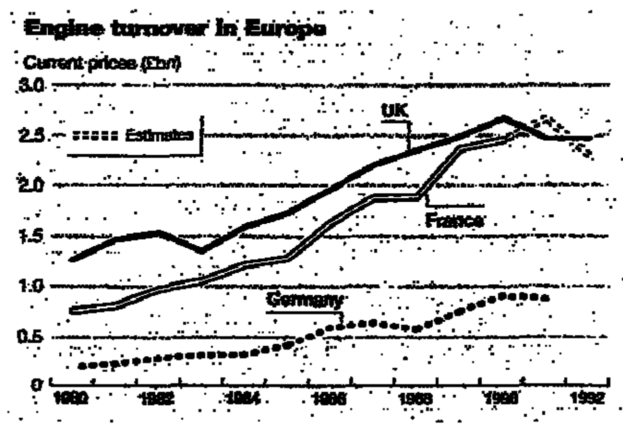
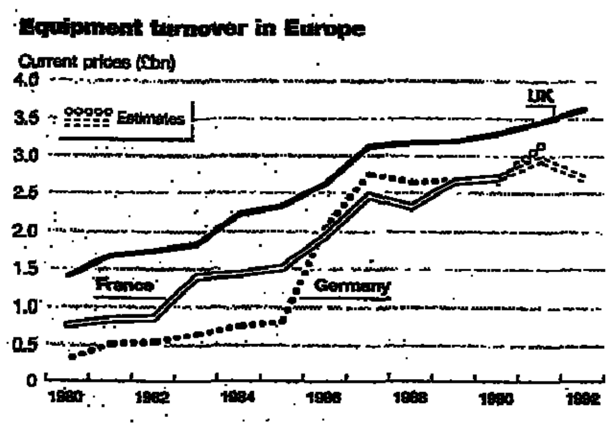
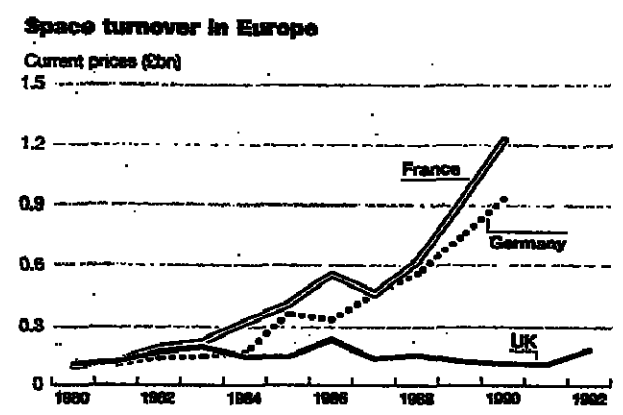








Germany: **Quentin Peel** discusses positive moves to revive the industry

Important vote of confidence

For an industry undergoing its most severe crisis since the 1960s, the appointment of Jürgen Schrempp as the next chief executive of Daimler-Benz amounts to a considerable vote of confidence.

He is the man who, as head of Deutsche Aerospace (Dasa), the dominant force in the German aerospace industry, has been responsible for the radical reorganisation of much of the sector into one of Daimler's most important subsidiaries. And now, in the past 18 months, he has been the man forced to embark on sweeping and painful cuts in that same operation to cope with the downturn, drawing up plans to close six plants and lay off 16,000 workers.

The truth is that the success or failure of Mr Schrempp's overhaul is still in the balance, but Daimler, Germany's mightiest industrial empire, has clearly decided that the job has been well done.

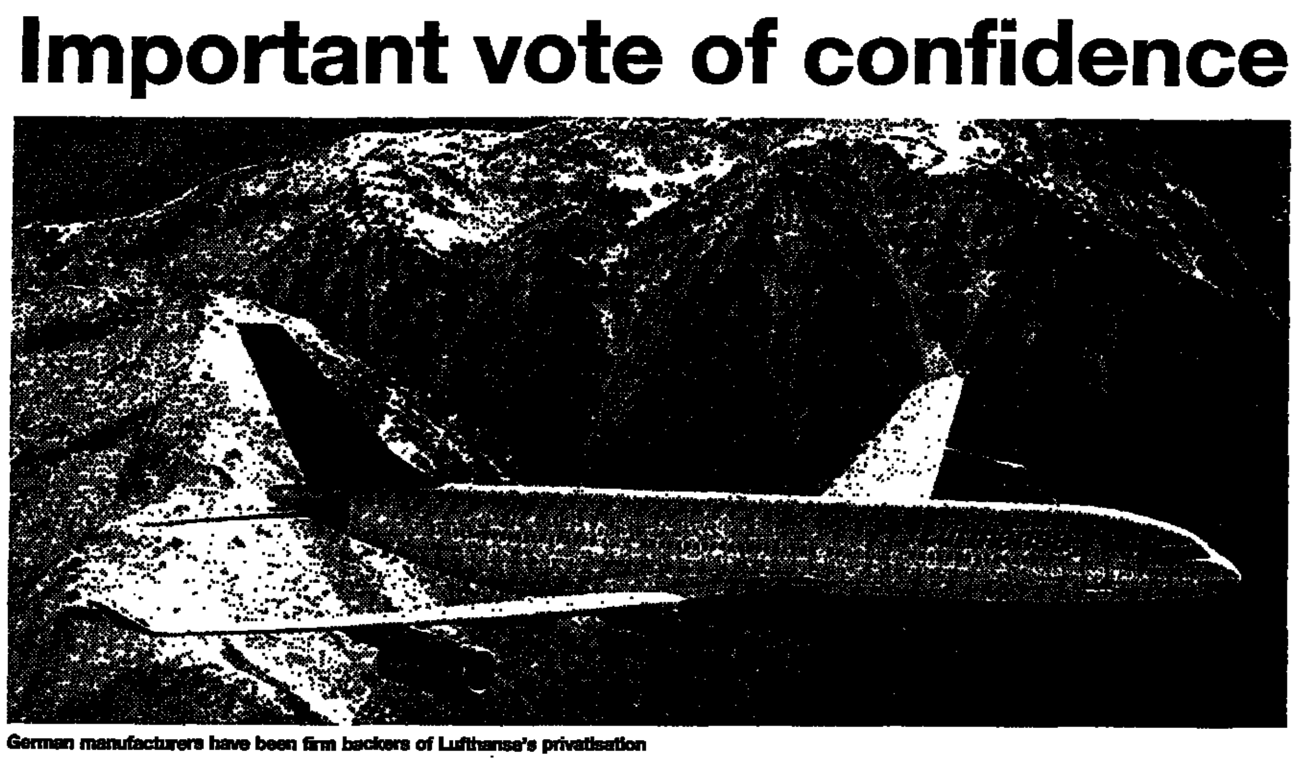
Dasa, which includes Deutsche Aerospace Airbus, the German part of the Airbus Industrie consortium, and a half share in the Eurocopter consortium, as well as famous names such as Messerschmidt-Bolkow-Blohm (MBB), the country's main military aircraft contractor, a majority stake in Dornier, manufacturer of medium-range turboprop aircraft, Fokker, its Dutch counterpart, and Motoren und Turbinen Union (MTU), the aircraft engine manufacturer, will remain an essential part of the empire and its boss, Mr Schrempp, will succeed Edzard Reuter next year at its helm.

The decision of the Daimler-Benz supervisory board in June coincided with the successful conclusion of Mr Schrempp's negotiations with the trade unions at Dasa to close six of its 16 plants, and cut 10,300 of the 16,000 jobs it needs to shed by 1996. The last year has been traumatic for Dasa, as it has been for the rest of the aerospace sector.

Overall employment in the sector stood at 78,500 on December 31, 1992, and fewer than 72,900 by the end of last year. At least 10 per cent more jobs will have been shed by the end of the present year, according to the calculations of the BDLI, the German aerospace and defence industry federation. The sharpest cuts have been in the military sector – down 13.8 per cent in 1993 – and in the space sector, down 10.3 per cent in the year.

As for turnover in the industry, according to the BDLI figures, it was down even more sharply, by 18 per cent from DM26.77bn to DM21.95bn in 1992 alone.

The sector was hit, like the industry worldwide, by the coincidence of a sharp recession in civil aviation and drastic cuts in defence spending, as governments sought to reap the dividends of the end of the cold war. It has galvanised a traditionally secretive and somewhat self-satisfied industry in Germany into urgent public lobbying to protect its position, on the grounds that the country could lose its access to a vast area of vital high technology if it allows the aerospace sector to be marginalised once again, as it was after the second world war.



German manufacturers have been firm backers of Lufthansa's privatisation

Mr Schrempp has been one of the most vigorous campaigners for more coherent and overt government support for the industry, alongside Wolfgang Piller, his fellow Dasa director and president of the BDLI. Above all, they have argued that European governments must be prepared to back the industry with the same level of indirect support – through defence spending, and subsidies for research and development – as the US government does for its aerospace manufacturers.

The recent decision by the German government to back a DM1.2bn four-year research and development programme – to be half financed by the industry – was described by Mr Piller as a "first step" in the right direction. But he pointed out that in the US, the NASA budget for aerospace research had increased from $512m in 1991 to more than $1bn in the current year, with a target of $1.4bn by 1998. US Defence department spending on research and development in aerospace are estimated by the BDLI at around $1.4-1.6bn per year. Hitherto, the comparable sums in Germany added up to just DM16m a year.

Speaking at the Wehrkunde security conference in Munich this year, Mr Schrempp issued an urgent plea for fairer and more open competition between Europe and the US in armaments and aerospace industries. "We do not need a *préférence Européenne*, which would eventually cut us off from developments in top-notch technology outside Europe," he argued. "What we need is a level playing field with our US competitors."

This meant, he argued, overcoming the national fragmentation of the European markets in defence and civil aerospace manufacture. And his whole strategy at Dasa has clearly been focused on that aim.

In each sector, he has actively promoted cross-border co-operation. Not just in the Airbus consortium, but also in Eurocopter, the Franco-German joint venture set to start deliveries of its seven-seater, twin-engined light helicopter, the EC135, in 1996. He has pushed through the takeover of Fokker, the proudly independent Dutch aircraft manufacturer, to rationalise production in the turboprop sector, and is now talking of possible collaboration in satellites and guided missiles, with France's Aérospatiale.

In spite of the painful and costly experience of the Eurofighter project – still on track in spite of the German government's prevarication – Mr Schrempp is a vigorous supporter of the plan for a joint European project for the next generation of military transport aircraft, the so-called Future Large Aircraft (FLA).

He has used the industrial muscle of Daimler-Benz to force the German aerospace industry to match its competitors in Britain and France.

Thus within the Airbus consortium, he fought strenuously to raise the German profile, succeeding in winning the contract for final assembly of the most recent A321 Airbus model for his own Hamburg plant. Previously all Airbus aircraft were assembled at Toulouse.

The importance of the move for the German industry was underlined by the ceremony in January, when Lufthansa, the national carrier, became the first airline to take delivery of an A321. German manufacturers have been firm backers of Lufthansa's privatisation, on the grounds that a strong and profitable national airline is a vital underpinning for a strong national aerospace industry.

However, Mr Schrempp's strategy at Dasa has also underlined his perception of the limitations of the European industry. He has pushed through the alliance between MTU and the US aero-engine giant Pratt and Whitney, in an effort to compete with the BMW-Rolls-Royce alliance. He was a prime mover behind the decision to open talks between Airbus and Boeing on joint development of the next generation of super jumbos. And he has also brought about an alliance in a key market, by setting up a joint venture in satellite and space systems manufacture with China.

So far, none of that frantic activity has shown up in the bottom line. Dasa suffered a record net loss of DM694m in 1993, more than double that of the previous year. It will still be in the red in the current year. But Mr Schrempp is adamant that it will be back in the black by 1995.

Italy: **David Lane** examines the consequences of recession

Alenia slims its workforce

Times are hard in Italian aerospace. Employment figures at Alenia, the state-controlled business that dominates the national industry, illustrate the severity of the recession over the past four years.

When Aeritalia, with its predominantly aero activities, merged with Selenia (mainly electronics and defence) to form Alenia at the end of 1990, the aggregate workforce was just over 30,000. Alenia now has 26,000 on its books, of whom 3,000 are currently drawing benefits from the *cassa integrazione guadagni* labour lay-off fund and will never return to the drawing offices and production lines.

"I hope that we have seen the end of traumatic changes and that the 23,000 effective workforce is the floor," says Fausto Cereti, Alenia's head. However, he recognises the generalised and continuing downward trend in jobs. "Clearly, productivity is more likely to rise than fall. Competitors do not stand still, and the industry throughout the world is reducing its workforce.

"We are adapting our organisation and programmes to the enormous changes that the market is undergoing, both in terms of customers' spending levels and the entry of new suppliers," explains Mr Cereti.

He notes that Alenia has been suffering from a recession that has hit civil and defence activities simultaneously. "The crisis in civil aviation and the drop in aircraft orders has not been counter-balanced by an increase in defence budgets. People have wanted the peace dividend since the fall of the Berlin Wall," says Alenia's head. He does not foresee increased defence spending. "Improvements on the defence side will come from reductions in production capacity."

Yet in February this year, Alenia's Finmeccanica parent, a sub-holding of the IRI state holding corporation, completed the acquisition of the defence interests belonging to the bankrupt EFIM state holding corporation. With Agusta helicopters, Agusta Omi, Oto Melara Officine Galileo and Breda Meccanica Bresciana now inescapably part of Finmeccanica, scope for further rationalisation seem greater.

However, the outlook is not completely black. "The civil market is giving signs of upturn. The situation is far from brilliant, but it is better than two years ago," observes Mr Cereti. He believes that Alenia should start to see a healthier flow of orders around the beginning of next year.

Much is still expected from its successful ATR joint venture with France's Aerospatiale. Firm orders for the ATR 42 and ATR 72 regional commuter aircraft stood at 422 at the end of last year, and further sales have since been achieved. "The programme is going very well and is doing better than break even. The ATR 42 is being quietened by installing a six-bladed propeller, and we are considering completing the range with a cargo/military version and an 82-seater," says Mr Cereti.

Fausto Cereti: does not foresee increased defence spending

Alenia's head executive says that ATR would welcome new partners. "Italians would rather dine in the company of 10 than three. It is more congenial," remarks Mr Cereti. He adds that ATR is sounding out other aerospace companies, and that British Aerospace would closely fit the identikit of an ideal partner.

Although Alenia puts the spotlight on the ATR programme, mundane business counts for more in money terms. The elderly G222 transporter and maintenance work provided 14 per cent of aerospace revenues last year, against the ATR's 7 per cent. Manufacture of aircraft components for Boeing, MDD and Airbus also contributed more to the accounts, with 9 per cent of total aerospace revenues.

Co-operation with other makers is a characteristic of the Italian state concern. It is anomalous therefore that its role in Airbus is relatively small, recent and not risk-sharing.

This is unlikely to change soon. "Airbus has difficulties in filling the capacity of its partners. But perhaps there will be space for Alenia in a new Airbus programme," says Mr Cereti.

Yet the ATR programme, the G222 transporter, aircraft maintenance and the manufacture of components together only contribute the same level of revenues as military aircraft alone. This sector is the biggest contributor to Alenia's aerospace revenues, with 30 per cent of the total. The business overall is highly dependent on the AMX light tactical fighter, the Tornado, the F104 upgrade and, most critical, the Eurofighter.

Alenia is pinning its hopes on EFA, as Mr Cereti makes clear. About 15,000 workers will be employed on the programme when it is under way. He warns that EFA production must commence next year in order that design, development and manufacturing capability shall not be put at risk. Alenia has an urgent need for orders to absorb capacity.

"It is not possible to close facilities and then re-open them when EFA is ready. But is there willingness to pay the costs of maintaining idle plant?" asks Mr Cereti.

Moreover, if or when EFA does enter production, Italy's state aerospace business will be working to a much smaller order book than it expected when the project started. "EFA numbers will be fewer than were initially foreseen. Italy planned to take 180, and this was a minimum. There were expectations of further purchases. Now Italy says it will take 130, and this is the maximum," says Mr Cereti, anticipating further cuts.

What these critical times have done to Alenia's profit and loss account is unclear. Its last accounts were for 1991, when it reported L56bn (£22m) post-tax profit on sales of L4,812bn. It has since been merged into its Finmeccanica parent, which has not disclosed figures for Alenia.

With the consolidated profit and loss account of stock market-quoted Finmeccanica crashing from L186bn on sales of L11,791bn in 1992 to just L33bn on sales of L10,772bn last year, its state aerospace activities were probably heavily in deficit. Indeed, Mr Cereti acknowledges that conditions were much better three or four years ago.

Sweden: **Hugh Carnegy** on recovery from the Gripen crash

Partners hope for exports

The frightening spectacle last August of Sweden's new JAS 39 Gripen fighter aircraft veering crazily out of control over thousands of spectators and crashing pilotless in Stockholm's inner suburbs could hardly have come at a worse time for its manufacturers.

The aeroplane that crashed was number 39.102, the first to be delivered to the Swedish Airforce after a full year's delay and heavy cost overruns in the development schedule of the fighter. With the vital first export order still unsecured, the crash appeared to be a disastrous setback for the four Swedish partners making the JAS – Saab-Scania, Volvo Flygmotor, Ericsson Radar Electronics and FFV Aerotech, part of the Celsius group.

A year later, however, the consortium believes it has largely put the effects of the crash behind it. The export breakthrough has still not occured, but the JAS makers insist its credentials as a high performance, but relatively low-cost all-purpose fighter can capture a large chunk of the market for new combat aircraft over the next six years.

An official investigation into the JAS crash – during which the pilot ejected safely and, miraculously, no one on the ground was hurt – concluded that it was caused by "insufficient margins in the flight control system software" that led to "a conflict between the pilot's commands and flight control system signals". In other words, the aircraft did not do what the pilot told it to do.

The consortium introduced a new edition of the flight control system software, and test flights were resumed last December. At the beginning of this year, a parliamentary commission set up to examine the JAS project gave it the green light to proceed.

Hans Ahlinder, general manager of Saab Military Aircraft, says those within the industry in Sweden and abroad accept that the problems have been ironed out, and that there should be no significant sales fall-out from the crash. "Everybody has some crashes during aircraft development. There is no bad will for the JAS 39," he insists.

The crash did add some SKr100m to the cost of development. But this was not a large amount in the context of the SKr60.2bn (£5m) cost of developing and producing the first batch of 30 of the JAS, of which the consortium bore almost two thirds and the rest was borne by the state.

The Swedish Air Force ordered a further 110 aircraft in 1992, in a deal worth SKr18bn. The air force is being extensively restructured and slimmed to 16 squadrons, but all these are to be equipped with the JAS 39, giving the consortium the prospect of another 150 domestic orders.

But for the consortium – especially Saab-Scania, easily the biggest partner – the key to a significant payback from the JAS project lies in the export market. Here the ambitious target is to capture up to 500 overseas sales by the end of the century. Just how ambitious this is can be gauged from the consortium's own projections, which show original estimates of 3,000 worldwide combat aircraft replacements by the year 2000 falling to as low as 1,500.

Mr Ahlinder believes the 500 target remains realistic. He says the JAS 39 occupies a niche which will make it attractive to air forces looking for a combination of performance and economy.

The JAS 39 is designed to be fully qualified for attack, fighter and reconnaissance missions, and is intended to be cheap to run and service. It is priced below the other new-generation fighters now under development – the Eurofighter 2000 (a joint German, British, Spanish and Italian project), the French Rafale and the American F22.

But, as Saab-Scania acknowledged in its latest annual report, it will also have to compete with upgraded versions of older aircraft such as the F16 and F18, the French Mirage 2000-5 and the Russian Mig29 and Su27.

To strengthen the vital export push, the consortium has been in talks with British Aerospace for two years, seeking a deal to use BAe's worldwide marketing and product support network to help sell the JAS. From BAe's point of view, the JAS would provide it with a new product to fill the gap before the Eurofighter is in production. A decision on whether to proceed will be taken by the year's end, according to Mr Ahlinder. Meanwhile, similar talks with other manufacturers have also been held, he says.

For Saab-Scania, these are also anxious times for its civilian aircraft division as it confronts a weak market. The company has carved out a significant share of the regional aircraft market, winning a near 40 per cent share of the world market for 20-39 seat airliners with its 35-seater Saab 340 aircraft. This year it has completed certification in the European Union and the US of its new 50-58 seater Saab 2000, and is due to make its first five deliveries of the new airplane – to Switzerland's Crossair.

But last year, deliveries of the 340 fell to 28 from 49 in 1992, and its share of worldwide deliveries in its segment fell from 49 to 36 per cent. This year deliveries of both the 340 and 2000 are not expected to exceed 20 – a long way below the target of a break-even level of 50 sales a year.

Saab-Scania, however, is committed to the long term in the industry, believing that when the cycle turns, regional airliners will be "one of the most expansive segments in the aircraft industry". It is convinced the 340 and 2000 are "in pace with the times".

THE NETHERLANDS

Breathing space for Fokker

The company believes that demand will pick up in 1996 and that total sales in its segment of the market will reach 2,000 in the next 10 years

Fokker, the Dutch aircraft manufacturer, recently secured some financial breathing space as it awaits the recovery on the international aviation market which it predicts will emerge in 1996.

In July, Deutsche Aerospace (DASA), the company's German controlling shareholder, agreed to inject some Fl 600m ($345m) into Fokker to shore up its balance sheet.

The Dutch government, which owns a minority stake in Fokker, did not participate directly in the refinancing, but it did approve a Fl 400m "sale-and-lease-back" of the company's technology to Rabobank, the big Dutch co-operative bank.

In all, the Fl 1bn will boost shareholders' equity from just 11 per cent of Fokker's balance sheet to 27 per cent, enabling the company to cope with the malaise that continues to affect the industry.

Fokker believes that demand for new aircraft will pick up in 1996 and that total sales of aircraft in its segment of the market will reach 2,000 over the next 10 years.

Meanwhile, Fokker, like other international aircraft makers, has been hit by sluggish demand, fierce price competition and the need to shed employees and reduce output while the market's weakness continues.

In 1993, these problems sent Fokker into a record net loss of Fl 460m from a slim profit of Fl 20m the year before, and turnover dropped to Fl 3.7bn from Fl 4.1bn.

Much of the red ink was caused by a provision of Fl 275m taken to cover the cost of selling aircraft at reduced prices to cut its stock.

Since then, it has introduced a new policy of completing the assembly of only those aircraft that have been firmly ordered. The move is part of a wider project to enhance production efficiency and flexibility at the company's plant near Amsterdam Schiphol Airport.

Fokker also took a charge of Fl 90m to finance a further round of job cuts in the first half of 1994.

The company's workforce has fallen to below 10,000 from more than 13,000 at the beginning of the 1990s.

The trend towards increased leasing, rather than outright sales, of aircraft has also strained Fokker's balance sheet.

This partly reflects the lack of down payments that used to accompany a firm order for the purchase of an aircraft.

To meet the challenge of leasing, Fokker hopes to set up a separate leasing company at arm's length from the company but with the participation of DASA and a couple of banks.

The Dutch government, which is due to sell its remaining Fokker shares in less than three years' time, has already said that it will not be a shareholder of the leasing company.

The July refinancing of Fokker, which must still be approved by DASA's parent, the Daimler-Benz group, is one of the most significant fruits so far of the April 1993 deal which brought the Dutch company under German control.

The deal, though controversial at the time in the Netherlands, was the result of the Dutch government's repeated assertion that it could no longer afford to finance Fokker's future and that the company needed to find itself a strong industrial partner.

Since then, another important change at the company has been the arrival of a new chairman, Ben van Schaik, a former executive in Mercedes-Benz's commercial vehicles business, to replace Erik-Jan Nederkoorn, the original architect of the German takeover who later became embroiled in a damaging boardroom row.

At the same time, Fokker pressed ahead with the formal launch of its latest aircraft, the 79-seat Fokker 70, which joins its two existing aeroplanes, the Fokker 50 and the Fokker 100.

Given the uncertain conditions prevailing on the aviation market, however, no decision has yet been taken on Fokker's long-standing wish to develop a 130-seater Fokker 130.

The certification process for the new Fokker 70 is under way.

In July, the first series-produced aircraft had its maiden flight and then joined the test programme that had already begun with the prototype aircraft.

The first delivery of a Fokker 70 to launch customer, Sempati Air of Indonesia, is expected in early 1995. Other orders have also been received from airlines in the US and Europe.

The Fokker 70 is based largely on the Fokker 100, and the two aircraft are being built on the same assembly line using tooling equipment and working areas that make such mixed production possible.

This configuration is designed to increase flexibility. Indeed, in the second half of next year Fokker's customers ordering either the Fokker 70 or Fokker 100 can decide which of the two aeroplanes they want until 12 months before delivery.

Ronald van de Krol

Asia Pacific is a bright spot for the industry, writes **Kieran Cooke**

Indonesia points the way

The past few years have been tough ones for the aerospace industry. The commercial market has been languishing, with airlines forced to cut back on aircraft deliveries due to lower-than-anticipated passenger growth. The end of the cold war has led to wholesale cuts in defence expenditure – and in the purchase of military aircraft.

The bright spot among the gloom has been the Asia Pacific region. Aerospace executives realised long ago that the region was the area of growth: according to latest forecasts by Boeing, Asian airlines are expected to acquire up to 3,000 aircraft, valued at $245bn, between now and 2010. It is expected that, by the end of the century, Asia will surpass the US as the world's largest commercial jet market.

At the same time, many countries in the region – particularly in south-east Asia – are strengthening their defence forces and making big expenditures on military aircraft. "This region is the salvation of our industry," said a Singapore-based aerospace executive. "If an aerospace company is not selling into this region, then its future has to be bleak."

Countries in the region have realised that their increased purchasing power has given them considerable influence over the world's aerospace companies. Many countries have ambitions to develop their own aerospace industries. Purchases – whether of commercial or military aircraft – are linked increasingly to technology transfer and so-called "offset" arrangements, which guarantee that purchasing countries can participate in various stages of aircraft manufacture.

A recent report by the US general accounting office, carried out for the Congressional committee on science, space and technology, found that, though countries in Asia are likely to be dependent on western aeronautics technology for some years, the region is developing a strong industry which could pose future problems for US manufacturers such as Boeing and McDonnell Douglas.

"Once acquired, these technologies can be honed and improved upon," says the report. "Consequently, what starts as a subcontract to produce latches on cargo doors, for instance, develops over time to fuselage, wing and avionics manufacturing."

Indonesia's Pesawat Terbang Nusantara (IPTN) is the only company in south-east Asia at present producing its own aircraft. It already manufactures the CN235 transport aircraft in co-operation with Casa of Spain. Later this year, the 70-seat CN250 is due to be rolled out of IPTN's giant complex at Bandung, on Java. The CN250 will be the first commercial aircraft to be designed and built entirely in Indonesia.

The Indonesian economy is rapidly expanding. The country, the world's third most populous, stretching across an area wider than the US coast to coast, has a growing appetite for aircraft.

Mr Bacharuddin Habibie, Indonesia's minister of research and technology and the driving force behind the growth of IPTN, is known in the aerospace industry as "Mr Offset". Mr Habibie, who has many critics, both within and outside Indonesia, for the way he has poured millions into high-technology projects, has established a wide range of collaborative agreements with foreign companies, and is demanding increasing amounts of technology transfer. He is also determined to take on the western companies.

"I have tried to sell IPTN aircraft in the US," says Mr Habibie. "The US says it's an open market, but it has so many built-in regulations that I can never sell an aircraft there. This is why I have to set up a company in the US to produce, assemble and sell our aircraft there."

Both Malaysia and Thailand are rapidly upgrading their aerospace industries. Increasing amounts of commercial aircraft repair and maintenance can now be carried out in either Bangkok or Kuala Lumpur. Again, both countries have insisted that, if they are going to buy commercial and military aircraft, aerospace companies must, in return, establish local training and manufacturing centres.

Recently McDonnell Douglas entered into a wide-ranging agreement to help Malaysia develop its aerospace industry. Last year, Malaysia placed orders for eight F/A-18D fighter jets from the US company, as part of its modernisation programme. Malaysia has also reached collaborative manufacturing, maintenance and technology-transfer agreements with the Russians as a result of purchasing 18 MiG-29s.

Dr Mahathir Mohamad, Malaysia's prime minister, has been stressing the need to develop an aerospace industry. Malaysia plans to manufacture initially two small two-seater aircraft and a 14-seater amphibious aircraft. "These are undoubtedly small beginnings," says Dr Mahathir, "but in a century's time we may have our Boeing and McDonnell Douglas counterpart... A beginning has to be made."

Singapore was the first country in south-east Asia to develop an aerospace industry. More than 50 companies are involved in what is now a highly sophisticated aerospace sector. According to the government's economic development board (EDB), the aerospace industry grew by 6.2 per cent last year with a total output of S$1.25bn ($800m).

The facilities provided at Changi – consistently rated as one of the world's most efficient airports – plus the availability of a highly skilled workforce – have been essential elements in making Singapore into one of the key aircraft overhaul and maintenance centres in the Asia Pacific region.

While Singapore does not have ambitions to produce its own aircraft, it has achieved some notable manufacturing successes. For example, Airbus A320 cabin doors, A340 engine mounts and landing-gear doors for the new Boeing 777 are now manufactured on the island.

However, Singapore faces constraints on manpower and space. Many airlines and aerospace companies locating regional operations in Indonesia, Malaysia or China, where wages are considerably lower.

Moreover, competition does not come only from the region. "European companies are very, very hungry and are slashing prices to rock-bottom," says an executive at one of Singapore's biggest aerospace companies. "At the end of the day, it will be a case of who can give the best in price, turnaround time and quality."

Singapore's industrial planners have a dual response to the challenges their aerospace industry faces. One way to combat the competition is to go into increasingly sophisticated high-tech areas of the industry. The other is to go regional – forming joint ventures with other countries and companies, particularly in labour-intensive areas.

Such ventures have already been formed in India. Late last year, Singapore Engineering, the wholly-owned subsidiary of Singapore Airlines, took a 10 per cent stake in a $63m aircraft repair and maintenance facility in China. Not only does this give the Singapore company the advantage of being able to recruit workers at less than two thirds the rates in the island republic; it will also give Singapore important access to the world's fastest growing aerospace market.

Kieran Cooke on the implications of Asia Pacific's surge in air travel

A test for control systems

In June, Singapore Airlines (SIA) announced one of the world's biggest aircraft orders. The national carrier would buy 22 Boeing 747-400 Megatops and 30 Airbus A340-300E aircraft, with a total price-tag of $10.3bn.

SIA said the aircraft were needed because of expected passenger growth of between 8 and 10 per cent a year in the coming decade. Mr Cheong Choong Kong, SIA's managing director, described the order as "an expression of our faith in the long-term health of the aviation industry and the promising future of SIA."

Airlines throughout the Asia Pacific region are expanding to meet surging passenger demand. The International Air Transport Association (Iata) predicts that passenger numbers in the region will double between now and 2000.

While passenger traffic is growing by 5 per cent a year in North America and under 4 per cent a year in Europe, in Asia the figure is closer to 9 per cent. Asian markets now account for about 25 per cent of world air travel. By early next century that figure is likely to exceed 40 per cent.

Several factors have caused the upsurge. The main stimulus has been the economic growth of most countries in the area. China's economy has been expanding by more than 12 per cent a year. Singapore's grew by nearly 10 per cent last year. The economies of Malaysia and Thailand have expanded by more than 8 per cent in each of the last five years.

Economic growth means more business activity and more business travel. It also means rising income levels, with people having greater opportunity to travel. In China alone air traffic increased by 35 per cent in 1992, and by more than 20 per cent last year.

Another factor influencing traffic levels has been the lifting of various travel restrictions in many countries: citizens of Taiwan, South Korea and perhaps most significantly China no longer face severe curtailments on movement outside their countries. Business people travelling in the region face fewer immigration barriers. Intra-Asia tourism is now one of the region's key growth industries.

Vietnam Airlines, the state carrier, reports that it carried 320,000 foreign passengers during the first six months of this year – more than the total carried in 1992.

Most of the region's carriers have ambitious expansion programmes. However, they have not been immune to the problems that have faced airlines elsewhere. Hong Kong-based Cathay Pacific reported a 24 per cent drop in net earnings last year. Malaysia Airlines' pre-tax profits for the year to March 1994 fell by 90 per cent. Over the same period, pre-tax profits at Singapore Airlines, consistently one of the world's most profitable carriers, dipped 7.7 per cent to $555m.

The profits slump was blamed on a combination of recession in western markets, plus intense competition and adverse currency factors. Many carriers now realise that their passenger forecasts and consequent expansion plans of a few years ago were too optimistic.

Officials at Malaysia Airlines privately admit that a $10.6bn aircraft purchase programme, which started in the early 1990s, has put severe financial strain on the company. Malaysia Airlines, Thai Airways, Philippine Airlines and Garuda, Indonesia's national carrier, have all had to defer or cancel some aircraft deliveries.

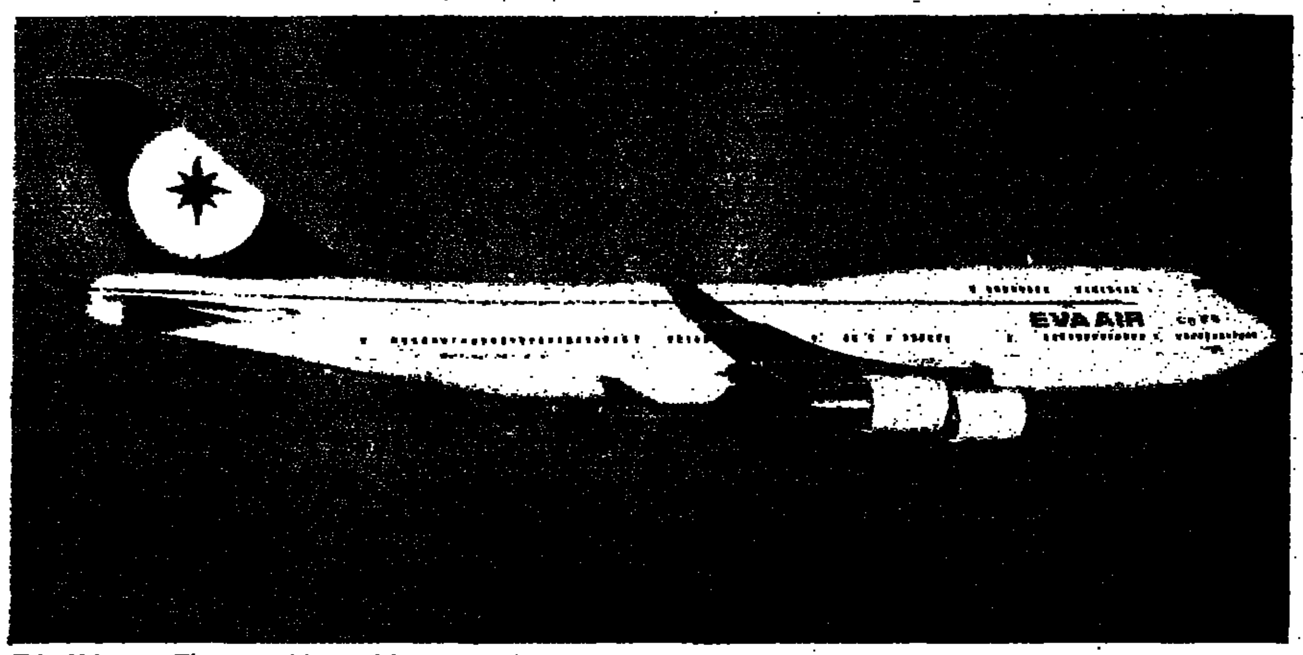
Asia's carriers have met increasing competition from outside the region. Faced with tough conditions at home, carriers from the US, and to a lesser extent from Europe, have turned to the lucrative Asia market. Asia's big state-controlled carriers have also been hurt by competition from the region's new airlines, such as Eva in Taiwan and Asiana in South Korea.

In partial response to the growth in competition, the region's larger carriers have improved levels of service and introduced frequent flyer programmes. Passengers who have long complained that Asia has some of the most expensive air routes in the world are relieved to find carriers undercutting ticket costs.

Other problems haunt the Asia Pacific's carriers. Thomas S. Windmuller, assistant director of the Air Transport Action Group, believes the region's airline industry is in danger of "strangling on its own success". Mr Windmuller says that forecasts for passenger growth in the region are based on the assumption that there will be sufficient airspace systems and airports capable of handling the upsurge in traffic.

However, there is an urgent need for Asia Pacific governments to standardise aerospace regulations and co-ordinate traffic-control systems. Once in the air, the passenger may be able to sit back and enjoy the service for which Asia's airlines are known. But facilities in the air are not matched by infrastructure on the ground.

Iata says only two of the main air-traffic hubs in the region – Singapore and Taipei – are capable of coping with expected passenger growth. Many countries in the region are either expanding existing airport facilities or building entirely new ones. However, until these are opened there is likely to be more congestion – and more frustration among passengers.



Flying high: competition from Asia's new airlines, such as Eva Air, have hit state-controlled carriers Picture: Glyn Genin

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